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Submission to the Royal Commission on Taxation

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Scope and Premises

This brief is concerned with the framework and methods of applying and collecting taxes on income. It does not pertain to other areas of taxation, except incidentally. Within the area of income taxes, it relates mainly to the taxation of incomes derived from property ownership, or business.

No recommendations are made with respect to the total burden of income taxes, nor to the distribution of that burden between the recipients of income derived from the provision of personal services and the recipients of income derived from the ownership of property, or capital. The concern here is with the distinctions between sources and kinds of income, which are and ought to be made for purposes of taxation.

The approach to the subject is broad and the recommendations are general in nature. An attempt has been made however, to trace through all of the significant implications of the recommendations, and to answer objections that might be raised against them.

As a basis for the subsequent discussion and recommendations, it is submitted that all taxes should satisfy the following four requirements.

1. They should be equitable; that is, they should apply equally to people in equal circumstances.

2. They should be effective as instruments of government economic policy. There are limitations to



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1 the effectiveness of taxes as a means of directing the
2 economy, but maximum advantage should be taken of their
3 potential.

4 3. They should not affect the operation of the
5 economy, except as they are used consciously and
6 deliberately by government for policy purposes. It is not
7 always possible to know what the ultimate effect of a tax
8 will be, but when it can be told, the tax should not be used
9 unless that effect is wanted.

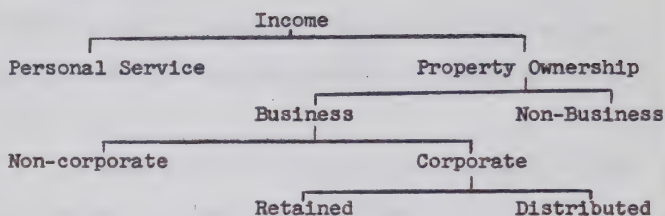
10 4. They should be easy to understand and to
11 administer. In order to satisfy the first three require-
12 ments in a complex economy, it is not always possible to
13 make taxes as simple as one might like; nevertheless
14 simplicity is desirable when it can be achieved.

15 Proposal

16 5 Under the present system, income is divided
17 initially into two categories for taxation, that which
18 is derived from the provision of personal services, in
19 the form of salaries, wages, etc., and that which is
20 derived from the ownership of property, in the form of
21 rents, interest, profits, etc. Property income is then
22 divided into that which is not thought to have arisen out
23 of business activity and that which is. The business in-
24 come is further divided into non-corporate and corporate
25 income. And finally, corporate income is divided into that
26 which is retained by the corporation and that which is
27 distributed. This method of sub-dividing income into
28 categories can be illustrated in chart form as follows:
29
30

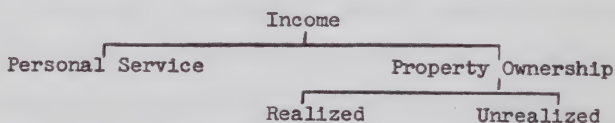


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Each of the categories described is taxed differently with the exception of personal service and non-corporate business income which are taxed alike. It is submitted that the existing distinctions between business and non-business income, between corporate and non-corporate income, and between retained and distributed income are unsatisfactory. They violate all four of the tax requirements submitted above. They are inequitable; they make the tax system less effective than it could be for economic policy purposes; they produce distortions in the methods of operating and financing businesses and in the allocation of resources; and they are difficult to understand and to administer.

It is submitted that income from property ownership should be divided into only two further categories, realized and unrealized income. Realized income is defined in general as gains that have been proved by sale, and unrealized income, as gains that have not been proved by sale. A chart of the system would then appear as follows:



The reasons for the proposed system, its advantages, its implications, and possible objections to it are discussed below.



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1 Personal Service vs. Property Ownership Income

2 9 It could be argued that on grounds of equity
3 there is no valid distinction between income derived
4 from personal services and income derived from property
5 ownership. For purposes of economic control however, there
6 is a very important distinction. The things that motivate
7 people to work are not entirely the same as the things
8 that motivate people to invest in business, and everyone
9 does not derive income from both sources in the same
10 proportion. The alternative to more personal service in-
11 come is more leisure. The alternative to more property
12 ownership income is more current consumption. If govern-
13 ment wishes to influence the level of business investment
14 therefore, a distinction between service and property
15 income is very useful. As a means of combating recession
16 for example, it might be appropriate to tax property
17 incomes at lower or less progressive rates than those
18 applied to service incomes.

19 10 The problem in distinguishing between service
20 income and property income is to divide the income of
21 owner-operated unincorporated businesses into personal
22 service and property ownership portions. A solution
23 would be to establish a scale of profit levels, indicating
24 for each level the proportion of total profit to be
25 considered personal service income and the proportion
26 to be considered property income. Below a given level,
27 the entire return to owners of unincorporated businesses
28 would be considered service income. Above that level, an
29 increasing proportion would be considered a return to the
30 ownership of property, tangible or intangible. In



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1 businesses having more than one owner, it could be left
2 to the owners themselves to decide how each category of
3 income would be divided among them, within reasonable
4 limits in the circumstances.

5 Retained vs. Distributed Income

6 11 The distinction between retained and distributed
7 corporate income is inequitable, it distorts business
8 investment, and it causes resources to be misallocated.
9 When corporate income is distributed in dividends, the
10 shareholders must pay taxes on it. When the income is
11 retained by the corporation, the value of the shares goes
12 up accordingly, and shareholders can take the income as
13 a tax free capital gain by selling their shares. Because
14 of the obvious inequity of this system, a complex of
15 regulations has been enacted, relating to such things
16 as dividend tax credits, the capitalization of retained
17 earnings and the redemption of preferred shares. The
18 result has been some improvement in equity but a much
19 more complicated system and one whose intention is more
20 easily thwarted.

21 12 Taxing shareholders on income distributed but
22 not on income retained by a corporation, provides a
23 strong incentive for the retention of corporate earnings.
24 Thus corporations are stimulated to expand continuously,
25 even though profit prospects may not warrant expansion.
26 This condition is undesirable from the standpoint of
27 corporate investors. It is also undesirable from the
28 standpoint of the country as a whole, because it means
29 that investment is stimulated artificially in those
30 industries which require large capital investments and



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1 which can only be financed by means of the corporate
2 form of organization. Resources are misallocated and
3 aggregate production is reduced.

4 13 The distinction between distributed and retained
5 corporate income for tax purposes also distorts the
6 operation of the capital market and the proportions of
7 owner and creditor financing of corporate businesses.
8 Increased retention of earnings means reduced recourse
9 to the capital market with new stock issues. The much
10 greater possibilities for tax free capital gains from
11 stock than from bond ownership stimulate greater reliance
12 on ownership and less on creditor financing.

13 14 It is submitted that all corporate income should
14 be taxed as income to the shareholders at the time it is
15 realized, regardless of whether it is retained or distri-
16 buted.

17 15 There are several objections that may be raised
18 against this proposal. First, it may be argued that it
19 would be unfair to require an individual to pay taxes
20 on income he had not received in the form of cash. The
21 answer to this objection is that it would seldom be the
22 least bit difficult for a shareholder to obtain the
23 necessary cash. In many small and medium sized corporations
24 the shares are held by a very few people, who are in a
25 position to vote themselves dividends. The shares in
26 large corporations are easily sold. It would not be
27 unreasonable to expect an investor to sell part of his
28 holdings if necessary, in order to obtain cash to pay
29 the taxes on the income from them. The value of his
30 holdings would have increased as a result of the income



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1 by an amount in excess of the value of the shares he
2 would have to sell. If he did not want to sell, he could
3 raise the necessary cash by borrowing on the strength of
4 the securities. To permit shareholders to defer taxes
5 indefinitely on income retained by corporations is, in
6 effect, to make interest free loans to them for investment,
7 out of the taxes paid by the rest of the country.

8 16 It is very probable that much larger dividends
9 would be paid by corporations. Funds that were no longer
10 required for direct payment of taxes by corporations,
11 would be available for distribution to the shareholders,
12 and there would be strong pressure from shareholders for
13 the payment of dividends out of which they could pay
14 taxes. If corporate managements resisted the pressure, it
15 would be a matter between shareholders and directors,
16 and not one in which the rest of the country need become
17 involved by way of tax adjustments.

18 17 A second objection that may be advanced, is
19 that shares in many corporations are held by investors
20 for short and varying periods of time, and it would be
21 a complicated task to calculate the amount of income
22 earned by corporations during all of those periods. The
23 answer is to make the tax payable by all corporate share-
24 holders as of a single date during the year, on income
25 earned by corporations during their financial years ended
26 during the preceeding calendar year. The tax would not be
27 borne completely by the shareholders as of that date, it
28 would be shared by all who had owned the shares during
29 the year, because the anticipation of it would affect
30 the market prices at which the shares had been traded,



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1 just as anticipated dividends affect market prices.

2 18 There is one possible weakness in this solution.

3 The effect on stock market prices of taxes to be paid on
4 corporation income, would be an average of the effects
5 of that income on the taxes of all those investors who
6 made up the market. If taxes were levied at progressive
7 rates, the tax burden shifted to an investor with a high
8 income as the result of a market sale would be less than
9 the tax burden he would suffer as a result of holding his
10 shares and paying the year end taxes. The converse would
11 be true for an investor with low income. This weakness
12 is not a serious one however. High income investors as
13 a group could not translate their shares into cash to
14 any significant extent before the taxable date without
15 forcing down the market value of shares, which would, in
16 effect, be shifting the taxes to them and away from low
17 income investors. They could not translate their shares
18 in high income corporations into low income securities
19 to any significant extent, without forcing down the market
20 price of the high income securities and forcing up the
21 price of the low income securities, with the same shifting
22 effect. The effect of progressive rates, on incomes from
23 funds being devoted to corporate share investments, could
24 not therefore, be avoided to any significant extent.

25 19 It would not be difficult for any shareholder to
26 calculate the amount of tax he was required to pay on
27 the income of the corporation. The taxable income would
28 simply be the number of shares he held, multiplied by the
29 corporation income per share. Corporations could be re-
30 quired to calculate income per share for each type of



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1 share outstanding, and to include it in their annual
2 reports. Foreign corporations could not be compelled to
3 report income per share, but it should not be difficult
4 for an investor to make the calculation himself, if they
5 omit it.

6 20 A slight complication arises from the fact that
7 the shareholders of some corporations are other corporations.
8 Whenever one company owned shares in another, it would have
9 to include the income per share reported by the other, in
10 calculating the total income per share to be reported to
11 its own shareholders. In the case of a domestic taxpayer
12 owning shares in a foreign corporation which in turn
13 held shares in other corporations, he would have to be
14 allowed to use simply the reported income of the first
15 corporation in calculating his taxes, without attempting
16 to trace through the effects of the incomes of the other
17 corporations on the income of the first.

18 21 It would not be possible to apply progressive
19 tax rates to foreign investors in domestic companies,
20 a flat rate would have to be used. Taxes would be paid
21 on behalf of foreign investors directly, by the domestic
22 corporations. The rate could be altered for purposes of
23 government economic policy. By the same token, the rates
24 of tax paid by domestic shareholders in foreign corporations
25 could be made different from those paid by domestic share-
26 holders in domestic corporations, for purposes of economic
27 policy.

28 22 It may be argued finally, that the proposed tax
29 on shareholders would discourage investment. This argument
30 is based on one or both of two assumptions. It assumes



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1 either that taxes on business incomes would be increased,
2 or that they would be imposed at highly progressive rates,
3 or both.

4 23 It is not suggested here that a larger proportion
5 of the total tax burden should be borne by the recipients
6 of business income, only that the burden they do bear
7 should be distributed more equitably. Undoubtedly the
8 incentive for investment in certain firms and industries
9 would be dampened, but there is no reason to think the
10 incentive to invest in business as a whole would be.
11 Investment would be reduced only in those places where
12 it was being made for the wrong reasons, for tax reasons.

13 24 If taxes on business income were imposed at
14 very progressive rates, it is possible that investment
15 might be discouraged, since most investing is done by
16 those in the higher income brackets. It is not essential
17 however, to tax business income at highly progressive
18 rates.

19 Corporate vs. Non-corporate Income

20 25 The distinction between corporate and non-corp-
21 orate income for tax purposes is inequitable, and the
22 inequity is compounded by the application of progressive
23 tax rates to corporate income. Shareholders end up bearing
24 taxes at different rates from owners of unincorporated
25 businesses, and those who own shares in large corporations
26 bear taxes at higher rates than those who own shares in
27 small corporations.

28 26 The distinction between corporate and non-corp-
29 orate income cannot be justified either on grounds of
30 government services received or ability to pay. Corporations



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1 receive no significant benefits more or less than unin-
2 corporated businesses. Any notion that they are better
3 able to pay must be based on the legal fiction that
4 corporations have a separate identity from their owners.
5 A corporation is simply an intermediary, corporation taxes
6 are borne ultimately by individuals. The individuals on
7 whom corporation taxes ultimately fall may or may not be
8 better able to pay than others, but the existence of a
9 corporation is not evidence either way.

10 27 Generally higher taxes on corporate incomes
11 seem to be justifiable in the minds of some, on the
12 grounds that corporations are larger on the average than
13 unincorporated businesses. Progressive taxes at the
14 corporate level imply the same thinking. Surely there is
15 nothing wrong with size in itself however. Many businesses
16 by their nature simply cannot be carried on without a
17 substantial investment in assets and therefore without
18 incorporation. Many of the shareholders of the largest
19 corporations have incomes lower than those of shareholders
20 in small corporations and owners of unincorporated
21 businesses. In any case, if a tax advantage is to be
22 given to small businesses, it should be based on invest-
23 ment in assets or volume of sales, not on the absence of
24 incorporation.

25 28 Progressive taxes on corporate income are
26 sometimes defended with the argument that profits beyond
27 a certain level are excessive and should be taxes more
28 heavily. This is not a valid defence of the existing
29 arrangements, because they do not take into account the
30 size of the corporate investment in assets required to



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1 produce a given profit. To be judged excessive, a
2 profit must be measured as a rate of return on investment,
3 not as an absolute amount.

4 29 Even if profits were measured as rates of return
5 on investment, progressive rates would be undesirable.
6 High profits may be the result of superior management
7 abilities and efficiency rather than monopoly conditions.
8 If so, the businesses should be stimulated, not penalized.
9 If monopoly conditions do exit, other forms of control
10 are more effective for dealing with them. Income taxes
11 may be partially passed on to consumers in the form of
12 higher prices.

13 30 It is submitted that the owners of unincorpor-
14 ated businesses and the owners of incorporated businesses
15 should be taxed at the same rates. It is submitted further
16 that part of the tax should be remitted directly by
17 management, at a uniform rate, and the remainder by the
18 owners. The advantage of this arrangement is that it
19 is more effective for purposes of economic control and
20 direction. The operating decisions are not always made
21 by all the owners of a business. Management and investors
22 can be influenced to some extent independently of each
23 other, by requiring each to pay part of the taxes on
24 business income, and being able to vary the rates payable
25 by each independently of the other.

26 Business vs. Non-business Income

27 31 Under the present system, some property income
28 is considered non-business property income. It is describ-
29 ed as capital gains and is not taxed. This distinction
30 is inequitable, difficult to administer, and socially



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1 wasteful.

2 32 The distinction between business income and
3 capital gains is arbitrary. Neither economists nor
4 accountants nor lawyers have been able to define capital
5 gains clearly nor to establish satisfactory criteria by
6 reference to which they could be determined. The closest
7 one can come to defining a capital gain is to say that it
8 is a gain the recipient had no intention of making. Ob-
9 viously, this is completely unsatisfactory. Nobody ever
10 purchases anything he may one day resell without at
11 least the hope that he will be able to sell it at a
12 profit. The result is that in many cases a taxpayer
13 cannot know at the time of a sale whether any economic
14 gain is a capital gain, tax avoidance often depends on
15 specialized knowledge of regulations and precedents or
16 the ability to buy it, the courts are constantly full
17 of people disputing the nature of their gains with the
18 Minister of National Revenue, and there is an enormous
19 social waste of the abilities of lawyers, accountants
20 and court officials.

21 33 It is submitted that the notion of capital
22 gains should be dropped entirely as an element influenc-
23 ing taxation, and that all income arising from the owner-
24 ship of property should be taxed alike.

25 34 So-called capital gains can be divided into two
26 types, according to the nature of the property from which
27 they arise. They are either gains on the sale of tangible
28 property such as real estate, or gains on the sale of
29 claims against or rights in tangible property, such as
30 stocks and bonds. To the extent that capital gains on



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1 securities are the result of increased values created by
2 retaining corporate income, they are no different from
3 dividends as a form of income. To the extent that they
4 are the result of value increases independent of corporate
5 retained income, they simply reflect the fact that the
6 market believes the securities have increased in value,
7 or to put it another way, that the securityholders have
8 obtained income, to a greater extent than the accounting
9 records of the issuer indicate. Regardless of whether the
10 market is right, the economic gain is no less real. In
11 any case it is obvious that nobody ever buys securities
12 without the intention of making an economic gain in one
13 form or another, and to tax different people on different
14 aspects of their gains on the basis of arbitrary criteria,
15 as is now done, is obviously not equitable.

16 35 The exemption from taxation of capital gains
17 on the sale of tangible property is just the opposite
18 of what one should expect to find in a free enterprise
19 economy. The man who buys and sells tangible property
20 with the intention of making a profit is usually the
21 man who contributes deliberately to production. The man
22 who buys and sells tangible property without intending to
23 make a profit may contribute something to production in-
24 directly, but not by design. If either man is to be
25 given a tax advantage, surely it is the man whose intention
26 is to produce. Because of the impossibility of proving
27 intention, it is not suggested that either man be given
28 an advantage, but that they both be taxed equally. Because
29 differences in intention do exist however, this arrange-
30 ment would have a favourable economic effect, as well as



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1 being more equitable. Part of the tax burden would be
2 shifted from producers to non-producers, thus stimulating
3 production.

4 36 One objection that is usually raised against
5 eliminating capital gains exemptions is that much capital
6 gain is unreal, being the result simply of an increase
7 in the general price level. This is true of all income
8 from property ownership however. The dollar income of
9 every investor in every business exceeds his real income
10 to the extent that it takes more dollars to represent his
11 real investment as a result of inflation. There is no
12 reason why some incomes should be granted concessions on
13 this ground but not others. If any allowance needs to be
14 made, it can be effected simply by an adjustment of the
15 rates of tax payable on property ownership incomes
16 generally.

17 37 A second objection raised to the taxation of
18 all gains from the sale of property of whatever kind, is
19 that many gains are difficult to trace, and the tax law
20 would be difficult, if not impossible, to enforce. Insofar
21 as gains on the sale of securities are concerned, this
22 is not a problem. Most security purchases and sales are
23 made through investment dealers. In order to verify them,
24 it would only be necessary to require the dealers to report
25 them. This would involve additional work on the part of
26 the dealers, but it should not be unreasonably difficult,
27 since they report the same information to their clients
28 in any case. A check on security transactions not made
29 through dealers could be provided by requiring purchasers
30 to report in their tax returns, the securities, prices



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1 and vendors of private purchases. If they failed to do
2 so, they would run the risk of having to pay the taxes
3 applicable to the vendor themselves. These checks would
4 be effective for ensuring that all shareholders as of
5 the date of tax imposition on corporate income reported
6 that income, as well as for tracing gains on security
7 sales.

8 38 The problem of tracing capital gains on tangible
9 property arises from the fact that such gains accrue
10 frequently to people who do not want to pay taxes on
11 them. These people simply do not report the gains in
12 their tax returns. Eliminating the distinction between
13 business and non-business gains will not, of course,
14 cause everyone to report all of his gains. The most
15 conscientious taxpayer who does not operate a business,
16 cannot be expected to keep track of the prices of every-
17 thing he buys and sells, to say nothing of those who
18 deliberately evade taxes.

19 39 The answer to this problem is to exempt from
20 taxation gains on the sale of all tangible property other
21 than that of high unit value and that of which the tax-
22 payer has sold more than a certain number of units during
23 the year. For example, it could be established that gains
24 from the sale of all tangible property would be taxable,
25 unless the property was sold for less than one thousand
26 dollars and the taxpayer had sold less than three units
27 of such property during the year. All significant gains
28 would still be taxable and enforcement would be relative-
29 ly easy. It would only be necessary to ferret out individ-
30 uals who engaged in the business of buying and selling



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1 commodities of a certain type without reporting it, and
2 to trace the exchange of high dollar value commodities.
3 The first of these must be done in any case; it would be
4 no different under the proposed system than under the
5 present system. The second would not be difficult because
6 only business plant and equipment and such things as
7 consumer-owned real estate and cars would be involved.
8 Business sales of plant are reported or traced anyway.
9 Real estate and cars are easy to trace because they must
10 be registered. A further check on large tangible property
11 sales could be provided by requiring taxpayers to report
12 in their tax returns, the amount and vendor for purchases
13 of more than the established figure.

14 40 Some difficulty might be encountered in determin-
15 ing the purchase price of real estate acquired in the
16 very distant past, for the purpose of measuring the gain
17 on its sale. Since income taxes of significant amount
18 are a very recent occurrence, it would be reasonable
19 to consider all property to have been acquired not sooner
20 than a fairly recent date for tax purposes. Value as of
21 that date could be estimated with reasonable accuracy from
22 assessment and other records. Assessment records could
23 also be used as a basis for deciding whether expenditures
24 made on property were of a capital nature or simply
25 maintenance. Capital cost allowances would be applied
26 to all depreciable property in determining whether a
27 gain had been made.

28 41 It might be argued that a tax on tangible
29 property capital gains would fall mainly on real estate
30 owners, and that these owners are already taxed



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1 sufficiently at the municipal level. Municipal taxes
2 are unrelated to economic gain however, they are levied
3 equally on those who gain from real estate ownership and
4 those who lose. Furthermore, municipal property taxes do
5 not fall mainly on the owners of real estate when the
6 property is rented, but on the tenants.

7 42 A further argument that may be advanced against
8 taxing what are currently considered capital gains, is
9 that is would distort business operations and impede
10 the effective operation of the capital market because
11 it would tend to freeze investments. People would hesitate
12 to sell their investments because that would attract
13 taxation. This argument rests largely on the fact that
14 under the present system, income retained by corporations
15 is not taxable as income of the shareholders. If it were,
16 as proposed earlier, most investment gains would be
17 taxable regardless of whether the investments were sold,
18 and there would be little tax advantage in not selling.
19 Investment gains not reflected in corporate retained
20 income could be made taxable on the death of the investor,
21 which would all but eliminate any remaining tax advantage.
22 Finally, it should be noted that those who buy and sell
23 investments actively are taxable on the income they derive
24 from trading under the existing system, so that there
25 would be no change as far as they are concerned.

26 Realized vs. Unrealized Income

27 43 The distinction between realized and unrealized
28 income, that is, between income proved by sale and income
29 not proved by sale, is necessary both for equity and for
30 simplicity of administration. Unless there is an active



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1 market in which a particular type of investment is being
2 traded, it is not possible to know the precise value of
3 such investments without selling them. Thus the owner of
4 a piece of real estate cannot know correctly what gain he
5 has derived from it until he sells it. The owner of an
6 unincorporated business or a share in an incorporated
7 business the stocks of which are not actively traded,
8 cannot know his gain exactly until he sells his interest.
9 When any part of an investment is sold, the income from
10 that sale can be determined satisfactorily for tax pur-
11 poses. Thus the income derived by the owner of a business
12 from the sale of goods by that business can be estimated
13 reasonably. The final determination of economic gain
14 from an investment however, must wait until the entire
15 investment has been sold.

16 44 It is submitted therefore, that taxes should
17 be payable on income from property ownership whenever
18 sales are made but only when sales are made. Business
19 income would continue to be taxed on the basis of account-
20 ing calculations of sales revenues and related expenses.
21 What are now considered non-business property gains would
22 be taxed in the same way. The difference between account-
23 ing calculations and the gain finally proved by sale of
24 an entire investment would be taxed (or allowed for tax
25 rebate) at the time of final sale.

26 45 In order to prevent the deferment of taxes
27 indefinitely on the difference between complete economic
28 gain and accounting estimates of profit, a sale would be
29 defined to include any transfer of ownership, including
30 a transfer to heirs. On the death of a taxpayer, an



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1 estimate of the value of his estate would have to be made
2 for income tax purposes, just as it is now required for
3 succession duty purposes. In this connection, it might be
4 appropriate to permit taxpayers to pay advances on taxes,
5 in order to avoid an excessive tax burden at the time of
6 death.

7 46 The main objection to taxing all income from
8 sales in the year of sale, is that the income may have
9 accumulated to a large sum over a period of several years,
10 and taxes calculated on it at progressive rates would be
11 excessive. This objection can be met by allowing taxpayers
12 to calculate the average increase in value per year over
13 the period between purchase and sale of an investment,
14 and to use the current tax rate they would pay on that
15 average, in calculating the taxes payable on the entire
16 gain.

17 47 A lesser objection arises from the fact that
18 gains in excess of accounting estimates realized by
19 foreign investors in domestic businesses could not be
20 traced satisfactorily. This problem could be met by an
21 adjustment in the rate of tax that foreigners would pay
22 on accounting profits of domestic businesses.

23 Summary of Proposed System

24 48 Briefly, the proposed system of taxing incomes
25 would operate in the following way.

26 49 No distinctions would be made between property
27 incomes thought to have arisen from business and those
28 thought not to have, between incomes arising from corporate
29 businesses and those arising from unincorporated businesses,
30 and between corporate income retained and corporate income



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1 distributed.

2 50 A distinction would be made for purposes of
3 economic direction through taxation, between incomes arising
4 from the provision of personal services and those arising
5 from the ownership of property. The incomes of owner-
6 operators of unincorporated businesses would be divided
7 into service and property categories on the basis of the
8 amount of income involved.

9 51 All income arising from the ownership of
10 property would be taxable, with the exception of that
11 arising from the sale of tangible property of low unit
12 value and of a kind sold only infrequently by a taxpayer.
13 Taxes would be levied on the individual owners of property
14 on the basis of the income realized from that ownership,
15 regardless of whether the income had been translated into
16 cash in the hands of the owners. Thus corporate income
17 would be taxable as income of shareholders, regardless of
18 whether it had been distributed.

19 52 Income realized would be measured by reference
20 to accounting conventions, as at present, with two excep-
21 tions. First, any difference between accounting income and
22 the total economic gain proved by final and complete liqui-
23 dation of an investment would be considered an adjustment
24 to income realized, applicable to the period of investment.
25 When the period exceeded one year, taxes would be payable
26 on the adjustment at the taxpayer's current tax rate
27 applicable to a yearly average of the adjustment. Secondly,
28 income would be considered realized whenever the ownership
29 of property was transferred, regardless of the nature of
30 the transfer. Thus income taxes would become payable on



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1 the death of taxpayers on any previously unrealized income
2 included in the value of their estates.

3 53 In those cases in which effective control over
4 the use of income from property does not reside in the
5 owners, as in the case of many corporations, a uniform
6 percentage of the taxes would be remitted by the management
7 on behalf of the owners. The remainder would be remitted
8 by the owners. An exception to this practice would be made
9 when the property and control both resided outside the
10 country. In that case, a domestic taxpayer would be respon-
11 sible for remitting the full amount of taxes himself. Taxes
12 would be levied on foreign investors in domestic property
13 at a uniform rate and would be remitted directly by those
14 responsible for administering the property.

15 54 Taxes on incomes from property ownership would
16 be levied on all owners of property as of a single date
17 of the year. As a means of enforcing the payment of taxes,
18 all security and large tangible property purchase trans-
19 actions would be reported by investment dealers and
20 purchasers.

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1 THE CANADIAN PHARMACEUTICAL ASSOCIATION INC

2
3 A SUBMISSION

4 TO THE

5 ROYAL COMMISSION ON TAXATION

6
7
8
9 PRESIDENT: A. W. Matthews, B.S.P.,
10 M.Sc., Ph.D. Vancouver,
11 British Columbia
12 FIRST VICE-PRESIDENT: J. K. Lawton, Phm. C.,
13 Halifax, Nova Scotia
14 SECOND VICE-PRESIDENT: J. L. Summers, B.S.P., M.Sc.,
15 Saskatoon, Saskatchewan
16 SECRETARY-MANAGER: J. C. Turnbull, B.S.P.,
17 Toronto, Ontario
18
19
20

21 Canadian Pharmaceutical Association, Inc.,
22 221 Victoria Street, Toronto 2, Ontario.
23
24

25 March, 1963.
26
27
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29
30



Submission Presented by
THE CANADIAN PHARMACEUTICAL ASSOCIATION, INC.
to the
ROYAL COMMISSION ON TAXATION

INTRODUCTION AND SUMMARY OF RECOMMENDATIONS

1.1 It is the aim of this presentation by the Canadian Pharmaceutical Association to make constructive recommendations concerning certain taxation matters of specific interest to Pharmacy practitioners and all those having a particular interest in matters having to do with the health and welfare of Canadians.

1.2 We are pleased to submit, herewith, views and pertinent information which the Association feels merit the attention of the royal Commission on Taxation. We respectfully request favourable consideration of our recommendations:

(1) That the Excise Tax Act be amended to provide for the removal of Federal Sales Tax from medicinal preparations and therapeutic applicances.

(2) That the Income Tax Act be amended to provide personal income tax relief on total personal health care expenditure by the removal of the present '3% of net income' clause.



- 1 (3) That the Income Tax Act be amended
2 to provide for income tax relief
3 relative to personal expenditure
4 by all individual pharmacists
5 (both self-employed and employed)
6 in seeking continuing education
7 in connection with their attendance
8 at annual meetings and conventions
9 of the profession's organizations
10 and at extension courses.

11
12 IDENTIFICATION AND ORIENTATION

13
14 2.1 The Canadian Pharmaceutical Association was
15 founded in 1907 and incorporated by Federal Charter
16 in 1924. It is representative of some 8,000
17 registered pharmacists and their provincial statutory
18 organizations in Canada, excepting those of the
19 College des Pharmaciens de la Province de Quebec
20 which withdrew from constituent-membership in this
21 Association, effective July 1, 1962.

22 2.1.1 The objects of the Canadian Pharmaceutical
23 Association, as stated on its Charter, are:

- 24 (1) To advance the science and practice
25 of pharmacy;
26 (2) To promote and protect the commercial
27 interests of the members;
28 (3) To promote the mutual interests of its
29 associations, societies and colleges,
30 and their members;



1 (4) To bring together their members in
2 professional commercial and social
3 gatherings.
4

5 2.2 Under date of December 21, 1962, the
6 Secretary of the Royal Commission on Taxation was
7 advised by letter from the office of the Canadian
8 Pharmaceutical Association that:

9 "Although it is not the intention of our
10 Canadian Pharmaceutical Association to
11 appear before public hearings of the
12 Royal Commission on Taxation, I wish to
13 advise, by this letter, that we shall in
14 the very near future transmit to the
15 Commission certain information relating
16 to:

- 17 (a) the inequalities of the present 11%
18 sales tax which is levied against
19 drugs, therapeutic preparations and
20 therapeutic appliances;
21 (b) the inequalities of the present
22 Income Tax Act which provides certain
23 exemptions to self-employed Pharmacy
24 practitioners, but does not extend
25 them to those who incur similar expenses
26 but are in employee categories.

27 Our representation will take the form of
28 extracts from briefs which the Association
29 has prepared for presentation before other
30 Royal Commissions during the past two years."



2.3 During the past two years, the Canadian Pharmaceutical Association has, on several occasions, presented many facts and figures related to the prices of drugs in Canada. Several Pharmacy organizations, as well as organizations representing the pharmaceutical industry and individual companies therein, have also placed on the public record a great deal of material dealing with the subject of drug prices.

2.4 The most recent of these was the appearance, on May 25, 1962, of the Canadian Pharmaceutical Association before the Royal Commission on Health Services. At that time, the Association presented a summary of a 189-page brief dealing with Pharmacy and the provision of drugs, generally, in Canada.

2.4.1 This brief to the Royal Commission on Taxation will quote extensively from that brief as presented to the Royal Commission on Health Services. More specifically, it will quote extensively from the sections which dealt with (1) provision and distribution of drugs and pharmaceutical services in Canada; (2) present costs of pharmaceutical services; and (3) pharmaceutical education in Canada.

DOLLAR VALUE OF THE MEDICINALS INDUSTRY (1)

3.1 Within the Canadian chemical industry, 'Medicinals and Pharmaceuticals' is the second and one of the most rapidly growing sub-groups. Some



1 idea of its relative rate of growth can be obtained
2 from the statement that in 1920, domestic production
3 was about \$13 million, while imports were valued at
4 two million dollars. By 1955, domestic production
5 was \$100 million and imports had risen to about
6 \$25 million. Further, since 1950, taking only the
7 past 10 years, the value of production at factory
8 prices has doubled and is now running at the estimated
9 rate of \$185 million, of which about \$140 million
10 might well be for prescription drugs.(2)

11
12 EXCISE TAXES (3)

13 4.1 Canada's pharmaceutical industry contributes
14 a reasonable amount to our export trade, although
15 imports still greatly exceed exports. In 1959, it
16 is reported, imports represented 11.1% of the total
17 \$165,238,579 Canadian market for medicinals and
18 pharmaceuticals. During the same period, exports
19 totalled \$6,741,878. Thus, net imports (imports
20 less exports) represented 7.0% of the total
21 Canadian market. (Source, D.B.S., The Medicinal and
22 Pharmaceutical Preparations Industry, 1959)

23
24 4.2 Fiscal policy related to tariff structure
25 provides for different tariffs for bulk medicinal
26 and/or chemical products. Tariffs apply to most
27 imported drugs at rates of 15% to 20% of the 'fair
28 market value', and thus it must be acknowledged that
29 such duties are a substantial part of the cost of
30 medicinal preparations available on the Canadian market.



4.3 By amendments of a few years ago, excise taxes on bulk quantities of finished pharmaceuticals are applied against the package sizes in which the importer intends to sell the product in Canada. The Association certainly commends this action as being more fair to those companies which both manufacture and package in Canada, and as being a move which will enhance the creation of more extensive manufacturing procedures here.

FEDERAL SALES TAX (4)

5.1 The Excise Tax Act exempts from federal sales tax cortisone, ACTH, insulin, radium, Salk vaccine, liver extract, and Vitamin B₁₂ for injection. Except for these seven specific drugs (not drug classes), an 11% federal sales tax is applied against sales of all drug preparations. This tax greatly increases the financial burden to be borne by the patient, often at a time when his earning power, potential or real, is reduced. It, of course, contributes adversely to the cost of drugs in Canada when compared with costs in other countries. Sales tax is not paid by governments, institutions and hospitals when purchasing drugs unless the latter use them in selling activities which are profit-making.

5.2 From May of 1936 to May of 1951, this tax remained at the level of 8%. In May of 1951, the tax was raised to 10%, and in April of 1959 was again raised to 11%. It constitutes a substantial portion



1 of the total national drug bill. In 1960, total
2 prescription receipts of all Canadian pharmacies
3 was \$131,092,880. Assuming that the cost of the
4 actual medications contained in this value of
5 prescription services is 50%, it may be estimated
6 that the manufacturers' selling price of these drug
7 preparations was \$65,546,440 of which \$6,495,593.15
8 was remitted to the Federal Government as sales tax,
9 and \$59,050,846.85 was retained by the manufacturer.
10 However, the retail pharmacist applies a mark-up on
11 the tax-inclusive invoiced price of the drug.
12 Generally speaking, a mark-up of 40% of selling
13 price is applied so that the \$6½ million collected by
14 the Federal Government by this one tax eventually
15 costs the ill and diseased persons of Canada almost
16 \$11 million. This amount represents 8.3% of the
17 total consumer cost of prescription services through
18 retail pharmacies. Calculations related to the
19 total consumption of drugs, both self medication and
20 prescribed treatment, would undoubtedly double the
21 foregoing figures!

22
23 5.3 The Association has each year, for many
24 years, urged the Federal Government to repeal the
25 Excise Tax Act as it applies to drugs and
26 pharmaceutical preparations, and therapeutic items
27 used in the diagnosis and treatment of disease. The
28 removal of this burdensome tax is, we firmly believe,
29 in the public interest.
30



1 5.4 The Association's views have been summarized
2 in Annual Meeting resolutions which have been
3 forwarded to the Minister of National Revenue. The
4 most recent -- adopted at the 1962 Annual Meeting --
5 reads:

6 WHEREAS the cost of medication is a
7 matter of concern to governments as
8 demonstrated by the various government
9 commission and committee inquiries, and

10 WHEREAS drug costs generally are a
11 matter of concern to the public as
12 exhibited by its interest, and

13 WHEREAS the 11% federal sales tax
14 contributes a considerable amount to
15 the cost of medication and of
16 therapeutic appliances, and

17 WHEREAS any hardship relative to the
18 purchase of drugs and/or therapeutic
19 appliances falls most heavily during
20 illness when earning power is
21 potentially or actually reduced;
22 therefore

23 BE IT RESOLVED that the Canadian
24 Pharmaceutical Association again
25 request the Government of Canada
26 through the Honourable the Minister
27 of National Revenue, to give favourable
28 consideration to exempting drugs, drug
29 preparations and therapeutic appliances
30



from the application of the present
11% federal sales tax.

PROVINCIAL SALES TAXATION (5)

6.1 Although consideration of provincial
taxation matters is possibly not within the Terms
of Reference of this Royal Commission on Taxation,
we call the attention of the Commissioners to it.
In so doing, we present a more complete picture
related to taxes applicable to drug distribution.

6.2 Most provinces of Canada now levy a
direct tax on retail sales. Prescribed drugs are
exempt from such tax. In certain provinces, drug
preparations purchased for purposes of self-
medication, either through self-diagnosis or on the
recommendation of a medical practitioner, are also
exempt from this direct sales tax levy. Where such
exemptions do not exist, or where such preparations
are not properly classified as being drugs, the
taxes adversely influence the procurement of health-
giving substances. We continue to urge that these
latter preparations be properly classified as 'drugs'
within the applicable Acts and exempted therein from
such taxation.

MEDICAL EXPENSES AND THE INCOME TAX ACT (6)

7.1 Since 1958, and after long-standing
representations by the Association, payments for



1 pharmaceutical services rendered by pharmacists upon
2 a prescription of a medical or dental practitioner
3 are included as deductible items for purposes of
4 calculating personal income tax. Income tax relief
5 is provided relative to the personal expenses of
6 those individuals who, during a taxation year, are
7 required to assume certain health care expenditures
8 which exceed 3% of their 'net income'.
9

10 7.2 It is considered that only through the
11 elimination of the '3% of net income' provision can
12 proper tax recognition be given to the financial
13 responsibilities borne by a taxpayer on behalf of
14 himself and his dependents. It is recommended that
15 income tax relief be extended to 100% of annual
16 medical expenditures to thus fully acknowledge the
17 social desirability of sharing, with the private
18 individual, the monetary burdens of his health care
19 as a member of the Canadian community.
20

21 CONVENTION EXPENSES AND THE INCOME TAX ACT (7)

22 8.1 From what was essentially an apprenticeship
23 system at the beginning of the century, the study of
24 Pharmacy may now be viewed as an academic discipline
25 with certain non-professional studies being an
26 essential part of the preparation of the pharmacist.
27 As the provinces or territories were constituted,
28 pharmaceutical associations were made responsible
29 for the educational and licensing qualifications of
30



1 of pharmacists. Thus, formal courses were initiated
2 which, as the demand for further pharmaceutical
3 education increased, were given over to the
4 universities within the provinces. Today, there
5 are eight colleges or schools of Pharmacy in Canada:
6 one in each of the provinces of British Columbia,
7 Alberta, Saskatchewan, Manitoba and Ontario; two in
8 Quebec and one in the Maritime Provinces. In each
9 instance, they are established within a university
10 and are responsible for all of the theoretical
11 education of a pharmacist. The degree awarded is
12 that of Bachelor of Science in Pharmacy.

13 8.2 The development of the modern curriculum
14 for Pharmacy is the latest in a long series of
15 forward steps which the profession has achieved in
16 its endeavour to serve the needs of society in the
17 best possible way. Each new graduate has invested
18 four to five years of time, and a minimum of \$7,500
19 in his professional education in order that he may
20 safely provide all the necessary service in drugs
21 required by his community.
22

23 8.3 The responsibilities of pharmaceutical
24 education are not restricted to lecture rooms and
25 laboratories, and do not end with the graduation of
26 the student. The profession faces problems in
27 connection with the continuing education of its
28 practitioners. Continuing education is a vital
29 segment of professional practice as the medical and
30



1 pharmaceutical sciences forge ahead at an ever-
2 increasing pace. The pharmacist who is unable to
3 keep abreast soon finds his knowledge 'out-dated'.

4 8.4 Progressive attention to changes brought
5 about by modern activities as such pertain to both
6 the development of new therapeutic agents and to
7 distribution methods is vital to the health and
8 welfare of Canadians. Thus, attendance at extension
9 courses and convention sessions which offer continuing
10 education is an integral part of Pharmacy as
11 practised by both those who are self-employed and
12 those who are employees in a community pharmacy, a
13 hospital or other institution, or otherwise.
14

15 8.5 The present Income Tax Act provides for
16 certain deductions for income tax purposes for those
17 who are self-employed in a business or a profession.
18 Employees are not granted the same privileges.

19 8.6 The following resolution, adopted at the
20 1962 Annual Meeting of the Canadian Pharmaceutical
21 Association, is in keeping with petitions of previous
22 years which have been placed before the Minister of
23 National Revenue:
24

25 WHEREAS the various Pharmacy Acts of the
26 provinces of Canada licence pharmacists to
27 practice the profession of pharmacy on an
28 equal basis whether they be employees or
29 self-employed, and
30



1 WHEREAS the Pharmacy Acts of the various
2 provinces of Canada establish and
3 incorporate as bodies politic the various
4 Pharmaceutical Associations as licensing
5 bodies, and

6 WHEREAS the function and operation of such
7 licensing and statutory bodies is of equal
8 concern to all pharmacists be they
9 employees or self-employed, and

10 WHEREAS section 11 (1) (1a) of the Income
11 Tax Act provides in part: "... the following
12 amounts may be deducted in computing the
13 income of a taxpayer for a taxation year:
14 (1a) an amount paid by the taxpayer in the
15 year as or on account of expenses incurred
16 by him in attending, in connection with a
17 business or profession carried on by him,
18 not more than two conventions held during
19 the year by a business or professional
20 organization", and

21 WHEREAS an employee-pharmacist is engaged
22 "... in connection with a ... profession
23 carried on by him ..." as much as is a
24 self-employed pharmacist, therefore

25 BE IT RESOLVED that the Canadian
26 Pharmaceutical Association propose to
27 the Government of Canada through the
28 Honourable, the Minister of National
29 Revenue, that Section 5(1) of the Income
30 Tax Act be amended to permit deductions



1 in computing income from employment to
2 include expenses in connection with the
3 attendance at Annual Meetings and
4 Conventions of professional organizations
5 by employee-pharmacists on the same basis
6 as self-employed pharmacists.

7
8 8.7 The recommendation of the above resolution
9 is in keeping with similar representations which, we
10 understand, have been made by associations which
11 represent the members of other health professions,
12 namely, Medicine, Dentistry and Nursing.

13 SUMMARY

14
15 9.1 The pharmacists of Canada, licensed under
16 provincial statute and represented nationally by the
17 Canadian Pharmaceutical Association, are most anxious
18 that all possible measures be taken to assist in the
19 betterment of health and welfare and the methods
20 whereby such is made available to Canadians. We
21 believe that the recommendations made herein to the
22 Royal Commission on Taxation will, in some measure,
23 promote these objectives.

24 9.2 In summary, the Canadian Pharmaceutical
25 Association recommends:

- 26 (1) Amendment of the Excise Tax Act to
27 provide for the removal of Federal
28 Sales Tax from medicinal preparations
29 and therapeutic appliances.
30



1 (2) Amendment of the Income Tax Act to
2 provide personal income tax relief
3 on total personal health care
4 expenditure by the removal of the
5 present '3% of net income' clause.

6 (3) Amendment of the Income Tax Act to
7 provide for income tax relief
8 relative to personal expenditure
9 by all individual pharmacists
10 (both self-employed and employed)
11 in seeking continuing education
12 connection with their attendance at
13 annual meetings and conventions of
14 the profession's organizations and
15 at extension courses.

16
17 Respectfully submitted,

18
19 J. C. TURNBULL, B.S.P.

20 Secretary-Manager.

21 Canadian Pharmaceutical
22 Association, Inc.
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REPRESENTATION SUBMITTED BY:

FRANK DOROSH, STONEY CREEK, ONTARIO

SUBMISSION ON TAXATION

1. It is my opinion the structure of our democracy is based on philosophy that it is technically possible for one or a group of capitalistic tycoons to unite and own Canada lock, stock, and barrel. All that is left to do is to outlive everyone and chalk up and compound interest rates on the dollar itself no more no less. Till such time might come, the free enterprise builds the nation better and faster than any other form of government known to man.

2. The free enterprise means that no matter how well dressed, when stripped nude, means how well one is able to fleece the other. This complies with the Laws of Nature, and no other system of rule can expect to supercede this law in promoting our national progress.

3. Here is where our Government comes in as a guide; a law; a place to be a nation and enjoy life. Since no government or political party wants to cut its own throat must take the role of rule rather than take part in free enterprise. This is also in accordance with Laws of Nature.

4. As per Laws of Nature the Government has to encourage the free flow of enterprise (action). Even the minutest atom must spin to exist. No human; no business; no nation or the world can escape this Almighty Law. I hate to point out that we impose taxes on free enterprise which also tends to impede national growth. But



1 as times change these taxes will come to pass.

2 5. In addition to enacted moral Laws the best
3 way to promote Canada at home and abroad is to elect the
4 dollar as a standard unit of measurement. It is only
5 logical that the Canadian dollar represents Canada and
6 be the standard bearer of Canadian wealth, and uniform
7 like weights and measures that akin to a meter or a
8 litre.

9 6. Yet there is even a better reason for this
10 purpose: When I look upon the dollar I see a beautiful
11 picture of our Queen. I cherish our Queen in Regal
12 respect and Her symbol of wealth in token of a dollar.
13 Such a dollar demands the respect and the right to be
14 used as means of even higher form of Divine Law. This
15 Law is sometimes classed as a gift akin to: You can give
16 knowledge, yet keep it; you can give love without losing
17 it, and pertaining to the dollar, we can eat the apple
18 and still show it.

19 7. To do this our Government would have to
20 abolish interest rates on loans. Because the minute we
21 are forced to borrow money we are forced to pay interest
22 rates and that chain reacts into irrecoverable debt. You
23 cannot hire, produce, sell, buy, or pay taxes with debt.
24 Such debt is a one way ticket to individual, industrial,
25 and national collapse. However to eat an apple and save
26 it, and using The Divine Laws of Nature would be to take
27 over all domestic loans and as installments come in, the
28 lender keeps the principal and remits interest as tax to
29 the State.

30 8. Tax the dollar itself and vary the interest



1 to nature of loan and needs required. The proceeds then
2 could only come back to us in general comforts of the
3 Nation such as roads, schools, pensions, services, etc.
4 Strange as it may seem the results go no other way but
5 come back to us in tangible wealth, besides our Govern-
6 ment will get all the credit without taxing free enter-
7 prise one cent more. Behold, no debt; no inflation;
8 no depression, and no unemployment, because the present
9 loan institutions will have to invest their non bearing
10 funds into active shares of industries or services, thus
11 puts them in the front ranks of spice in free enterprise.

12 9. The outlook looks great. Our present system
13 was best and well served this era. But like any system
14 must constantly be improved, and a time will come that
15 even my way will come to pass for better things. I here
16 have planted the seed taken from the philosophy of life
17 itself, and I leave it to you to judge; to do better; to
18 apply effectively, or reject.

19 10. To interpret this philosophy into Law which as
20 far as I know is something entirely new and would take a
21 team to layout. As pertaining to the text of the
22 submission: A to f this submission is self adaptable
23 to every questionnaire.

24 11. In my humble way I submit, crudely as I
25 expressed myself, I do not wish to step on nobodies toes.
26 I have a desire to help mankind without seeking laurels.
27 I am pleased you gave me the chance for which I am
28 thankful. I was raised on a farm in Tarnopol in
29 Saskatchewan, about 20 miles from where Honorable
30 McKenzie King came from and 22 miles from where Honorable



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4

1 J. Diefenbaker first hung his shingle up. So far I have
2 been working physically till at times my seventh callous
3 comes off and hope more humans like I would make enough
4 wealth in our course of life to bury myself. I consider
5 myself like a part of a computer with a flip flop, when
6 I have work I can flip, but when I don't I flop, I
7 remain respectively

8 Sincerely yours,

9 Frank Dorosh,

10 Stoney Creek, Ontario
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ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

SUBMISSION

OF

THE DIVERSEY CORPORATION (CANADA) LTD.

CONCERNING

FEDERAL SALES TAX

We believe that our economy and our tax structure can be improved by eliminating the Federal Sales Tax.

We believe that this is a drag on our economy and is a cumbersome and inefficient method of collecting tax.

Under the Sales Tax Act the Canadian manufacturer is penalized while the importer is favoured. The importer accounts for tax on the duty-paid value of his goods, while the manufacturer accounts for tax on his selling price. This means that, in order to compete, the manufacturer not only has to meet the laid-in cost of the importer, but he has to try to offset the additional sales tax his product must carry. Either he must come up with economies elsewhere or he must absorb the difference in tax out of his profit. We have heard Sales Tax officials freely admit that this is the biggest single weakness in the Act. However they will also advise that it is the function of the tariff department to protect manufacturers. However tariff levels have remained fairly static for years, while between 1951 and 1959, for example, Sales Tax increased from \$8.00 to \$11.00 per \$100.00. -- a rise of 37-1/2%. Each increase simply compounded the difference between the tax payable by the importer and that payable by the manufacturer. In this day and age it is difficult to imagine tariffs



1 being increased by anything like 37-1/2% -- nor would this
2 be desirable. We do not believe that the answer to the
3 sales tax problem lies in obtaining protection from
4 tariffs. We believe rather that it lies in eliminating
5 completely any difference in the amount of sales tax pay-
6 able by the manufacturer and by the importer. The best
7 method of course would be to eliminate sales tax altoge-
8 ther. We believe that manufacturers have been discouraged
9 from building plants in Canada because of the impact of
10 sales tax -- we understand that "Austin Motor Cars"
11 for example, decided not to build their plant in Canada
12 for this reason. Canada is competing with other countries
13 to attract and hold industries. Many of these other
14 countries will offer tax incentives to attract them.
15 Canada on the other hand offers a built-in tax penalty to
16 a manufacturer who decides to settle here.

17 Federal Sales Tax is reputed to earn for the
18 Government something like 800 million dollars each year.
19 However, we believe that there are three major factors
20 which serve to reduce the effectiveness of this tax.
21 They are:

22 (1) Federal Government charges tax on sales
23 to many of its own departments. These of course, produce
24 no revenue because the money is simply transferred from
25 one department to another. In fact probably a negative
26 amount of tax results, or a loss in revenue, because in
27 the process of charging itself tax, the Government creates
28 a lot of paper work which is always costly. We have no
29 idea of how much tax the Government claims to collect
30 from its own departments, but as the Government is the



1 country's biggest spender the amount must be quite con-
2 siderable. Whatever the amount, it certainly should not
3 be included in the total revenue reported as earned from
4 sales tax.

5 (2) Many items which are purchased by corpor-
6 ation and other businesses, for their own consumption,
7 are subject to Federal sales tax. However, this type
8 of expenditure is an allowable expense for income tax
9 purposes. In the case of Corporations, for every dollar
10 which the Government collects in the form of sales tax,
11 it loses fifty cents in income tax. In the case of un-
12 incorporated business, the amount of income tax lost in
13 this way would of course, vary with the upper rate of tax
14 payable by the owner. Considering the amount of money
15 spent by business on supplies and other items which are
16 subject to Federal Sales Tax, the amount of income tax
17 lost in this way must be quite considerable.

18 (3) The other factor which serves to reduce
19 the effectiveness of sales tax is of course, the cost
20 of its collection. Our economy must bear the cost of the
21 machinery to collect and administer Federal Sales Tax,
22 as well as the cost of collecting and administering
23 Federal income tax. Obviously the economy cannot help
24 but benefit by carrying the burden of only one system of
25 taxation instead of two. Eliminating Federal Sales Tax
26 would certainly help to reduce the badly overloaded public
27 pay roll.

28 We believe that when the three factors referred
29 to above are taken into account, the amount of net reven-
30 ue which could be considered real tax income in the hands



1 of the Government would be considerably less than the 800
2 million doolars which they report. Recent studies of the
3 Tax Foundation have shown that Federal Sales Tax equals
4 about 2% of personal income in Canada. We believe that
5 it would be better to eliminate Federal Sales Tax entirely
6 and to levy tax on gross personal incomes. As mentioned,
7 this has been estimated to equal about 2% of personal
8 incomes. However, because of the economies which could
9 be effected by eliminating Sales Tax, as outlined above,
10 we believe that this levy could be established at some-
11 thing less than 2%. While this may not be too palatable
12 politically, it should be kept in mind that sales tax is
13 a type of tax which is paid by everyone regardless of his
14 income and apparently it is paid at approximately the
15 same percentage rate, regardless of income. Thus it
16 would be no more unfair to levy a tax against gross personal
17 income than to levy sales tax. In the long run, the
18 economy and the tax-payer in general can only benefit
19 because the cost of only one system of tax would have to
20 be borne rather than the two systems as at present. In
21 addition, all of the disadvantages of sales tax would be
22 eliminated such as its complexity and its unfairness to
23 the Canadian manufacturer over the importer.

24 We believe that income tax is a much simpler
25 tax to administer than is Federal Sales Tax. Most people
26 now file income tax returns and the machinery for collect-
27 ing this tax, such as through pay-roll, is already set
28 up and operating. It would be a relatively simple matter
29 then to levy a surcharge on personal income in place of
30



1 sales tax. Sales Tax on the other hand, is an extremely
2 awkward, cumbersome, inefficient and therefore costly
3 type of tax. To be sure it is a convenient type of tax
4 from the Government point of view because they have
5 relatively little to do with its collection. By far the
6 bulk of the work and the expense of collecting this tax
7 falls upon business generally. Naturally this is a cost
8 of business which ultimately is passed on to the consumer.
9 On virtually every order or transaction which is placed
10 in business, the impact of Sales Tax must be considered.
11 There is such a complicated system of exemptions and
12 certificates, that order clerks must be trained as judge
13 and jury to decide which order should be taxable and
14 which should be exempt. To be sure, much of this can be
15 reduced to a routine, but still there are many borderline
16 cases which have to be considered and which use up time
17 and therefore money. If mistakes are made, then invari-
18 ably the business is penalized. Many of the regulations
19 appear absurd and add to the complications of the Act.
20 For example, a recent ruling held that "cake boards are
21 exempt if they are plain but become taxable if they are
22 decorated." We were given a ruling which held that one
23 of our products would be exempt from tax if it was used
24 to clean milk cans if they were owned by a farmer, but
25 would be taxable if the milk cans were owned by a dairy.
26 We believe that this type of absurdity is not uncommon
27 under Federal Sales Tax. Certainly the whole working
28 arrangement is awkward, cumbersome and inefficient.
29 Although income tax is complicated enough, we believe
30



1 that it is a simpler and a more efficient method by
2 comparison. Certainly it would add very little, if any,
3 to the existing income tax machinery to levy a surcharge
4 against personal incomes as a method of replacing sales
5 tax.

6 Apart from the inherent disadvantages and in-
7 equities which are built into Federal Sales Tax, we
8 believe that there is something basically wrong if not
9 immoral about this type of indirect tax. With this type
10 of tax it is virtually impossible for the consumer to
11 know how much tax he is paying when he buys a product.
12 We feel that this is wrong. If a person is paying tax,
13 he should know how much it is. By levying a surcharge
14 against his personal income, the tax-payer would have no
15 doubt. We believe that this type of tax has served to
16 keep the real cost of Government and its services hidden
17 from the individual tax-payer and has been a contributory
18 factor towards the growth of Government. We believe that
19 one of the best methods of controlling the size of
20 Government, is to let people know how much it is costing
21 them and this cannot be done when a goodly portion of
22 the Government revenue is garnered in the form of hidden
23 taxes.

24
25 We believe that Sales Tax is more inflationary
26 than is income tax because it has a more direct impact on
27 prices. The elimination of Federal Sales Tax would result
28 in an immediate and fairly substantial drop in prices.

29 In summary then, we believe that Federal Sales
30 Tax should be eliminated and replaced by a surcharge



1 against personal incomes. In the long run the economy
2 would benefit because it would not have to carry the
3 cost of the complex machinery required in Industry and
4 Government, to administer this Act. In addition, more
5 Industries would be attracted to Canada, because the
6 penalty for manufacturing in Canada, which is built into
7 Federal Sales Tax, would be eliminated. Naturally,
8 these industries would in turn help to carry the burden
9 of the Government spending and all tax-payers would of
10 course benefit.

11 Respectfully submitted.

12 THE DIVERSEY CORPORATION (CANADA) LTD.

13

14 G. C. NORRIE.

15 TREASURER

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ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

1
2
3 A BRIEF

4 SUBMITTED TO THE

5
6 ROYAL COMMISSION ON TAXATION

7 BY THE

8
9 CANADIAN DENTAL ASSOCIATION

10 L'ASSOCIATION DENTAIRE CANADIENNE

11
12 234 St. George Street

13 Toronto 5, Canada
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22 MAY 1963
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THE ASSOCIATION

1. The Canadian Dental Association is the national organization of the dental profession in Canada. First organized in 1902, it was re-organized and incorporated in 1942.

2. The ten provincial dental licensing bodies are corporate members of the Association. They are

- Newfoundland Dental Society
- Dental Association of Prince Edward Island
- Provincial Dental Board of Nova Scotia
- New Brunswick Dental Society
- College of Dental Surgeons of the Prov. of Quebec
- Royal College of Dental Surgeons of Ontario
- Manitoba Dental Association
- College of Dental Surgeons of Saskatchewan
- Alberta Dental Association
- College of Dental Surgeons of British Columbia.

3. Individual members are licensed dentists whose names have been submitted by corporate members. The membership of the Canadian Dental Association thus includes virtually all practising dentists in Canada. The Association has almost 6,000 individual members, one sixth of whom are French-speaking, plus honorary and associate members.

4. The association publishes a monthly scientific journal which is bilingual. Dozens of pamphlets and booklets dealing with dental health, education, research and other subjects are produced by the association for



1 mass distribution. Activities are centralized at the
2 association's headquarters building and under direction
3 of a permanent secretary and staff.

4 5. The business of the association is conducted
5 under authority of a Board of Governors which is composed
6 of representatives named by the ten corporate members.
7 There are the Executive Council and several committees
8 with specified responsibilities.

9 6. The stated objectives of the association are as
10 follows:

11 a. To cultivate and promote the art and science
12 of dentistry and all its collateral branches, and to
13 maintain the honour and interests of the dental profession;

14 b. To conduct, direct, encourage, support or pro-
15 vide for exhaustive dental and oral research.

16 c. To elevate and sustain the professional charac-
17 ter and education of dentists.

18 d. To promote mutual improvement, social inter-
19 course and goodwill among the members of the profession;

20 e. To enlighten and direct public opinion in
21 relation to oral hygiene, dental prophylaxis, oral health
22 and advanced scientific dental service;

23 f. To disseminate knowledge of dentistry and dental
24 discoveries;

25 g. To have cognizance of and safeguard the common
26 interests of the members of the dental profession.

27 h. To publish dental journals, reports and treatises;

28 i. To do all further or other lawful acts and
29 things as are incidental or conducive to the attainment
30 of the above objects.



7. The Canadian Dental Association represents the dental profession at the national level and is considered the official national voice of dentistry in Canada.

RECOMMENDATIONS

Expenses of graduate and post-graduate education

8. In dentistry, there are two major types of graduate and post-graduate programs.

(1) The one type comprises courses leading to specialty qualifications. Expenditures for this type of education have in the past been considered by the Department of National Revenue to be capital expenses.

(11) The other type of graduate or post-graduate instruction encompasses refresher courses. These are short, intensive courses which give the dentist a review of some clinical or biological area of dentistry and keep him abreast of new methods and materials. Last year, 121 (Personal communication from Dr. K. J. Paynter, Chairman, Post-graduate Division, Faculty of Dentistry, University of Toronto.) of Canada's 6,000 dentists attended such courses.

9. In the opinion of this association, refresher courses do not increase the dentist's "capital". They merely permit the modern dentist to maintain his original "asset", his professional skill and knowledge.

10. One of the prime tenets of dentistry is that no dentist has the right to be other than a continuous student. Without continuing education, it is impossible for the dentist to render proper service to his patients.



1 It is inconceivable that he can give good service and
2 high quality care unless he continues to study dental
3 health concepts developed since his graduation from dental
4 school and becomes proficient in their application.

5 11. It is recommended that reasonable expenses
6 incurred in the course of attending graduate and post-
7 graduate refresher programs sponsored by recognized uni-
8 versities not be taxed. Implementation of this measure
9 will encourage more dentists to continue their education
10 and will ultimately lead to improved dental health
11 services for the people of Canada.

12
13 Salaried Dentists' Deductions

14 12. Present provisions of Canada's income tax act
15 do not allow salaried dentists to deduct from their tax-
16 able income expenses incurred in the course of pursuing
17 their profession. If his employer will not or cannot pay
18 for these expenses, the salaried dentist must either pay
19 them himself without tax relief or forego the professional
20 benefits to be derived from these expenses.

21 13. There seems to be little logic to support this
22 position. One authority in this field has noted, "The
23 explanations available for the birth and use of the
24 concept seem to have been formulated not before its adop-
25 tion and as a result of logical consideration, but after
26 the practice was established and in an attempt to justify
27 it; and it therefore seems that the illusive philosophical
28 basis simply does not exist." (Gwyneth McGregor,
29 Employees' Deductions under the Income Tax, Canadian Tax
30 Foundation, p. 25.)



14. Theory and practice in other countries reveal that the Canadian attitude towards business expenses personally incurred by employees is by no means universally accepted.

(1) "In the United States....it is recognized.... that an employee is carrying on a trade, or business, and is entitled to the same 'ordinary and necessary' business expenses as the self-employed." (Ibid., p. 13)

"Expenses incurred by an individual in travelling away from home to attend a convention or other meeting are deductible provided he attends for the primary purpose of deriving a business benefit. This is true whether the taxpayer is engaged in business as an individual enterpriser or whether he is engaged in a trade or business which consists of the performance of services as an employee." (Internal Revenue Bulletin (No. 1960-3, January 18, 1960) as quoted in McGregor, p. 13.)

"The employee is also allowed to deduct such expenses as subscriptions to professional journals from adjusted gross income in lieu of a standard deduction." (Op. cit., McGregor, p. 14)

(11) British law on this subject is much more restrictive than that of the United States. There, an employee can deduct only those expenses which he is "necessarily obliged....to expend....wholly and exclusively" in the performance of his duties. (Ninth Schedule to the Income Tax Act, 1952, para. 7, as quoted in McGregor, p.2) This rule was severely criticized by Britain's Royal Commission on the Taxation of Profits and Income in its 1955 report. "The obligatory test was, the Commission



1 felt, an unreal one, especially as applied to professional,
2 technical and academic offices and employments."

3 (Op. cit., McGregor, p. 6). In continuing, the Commission
4 said that the rule was particularly onerous for profess-
5 ional people who must both maintain and increase their
6 professional knowledge. "Their obligation is not only
7 to be skilled in learning but to remain skilled in learn-
8 ing as conditions change." (Royal Commission on the
9 Taxation of Profits and Income, 1955, as quoted in
10 McGregor, p. 7). The expenses of doing this include such
11 items as purchasing professional books and magazines and
12 attending conferences.

13 The Commission's "final recommendation was that
14 the expenses rule should be reworded on less restricted
15 lines. The wording proposed would allow the deduction
16 of 'all expenses reasonably incurred for the appropriate
17 performance of the duties of the office or employment'. "
18 (Op. cit., McGregor, p. 7).

19 (iii) In Australia, dentists whether salaried or not
20 may deduct "reasonable costs of attending congresses,
21 post-graduate lectures and classes....where those expenses
22 are directed solely to keeping abreast of modern develop-
23 ments in dentistry and maintaining their professional
24 skill and knowledge as dentists." (Extract from a letter
25 of the Director of Income Tax, Canberra quoted in the
26 Australia Dental Association's Newsletter, Vol. II, No. 7,
27 August 1, 1962.)

28 15. It is recommended that reasonable costs in-
29 curred by salaried dentists in the course of maintaining
30 their professional knowledge and skill be allowed as



1 deductible expenses. These expenses should include the
2 costs of attending professional conventions, scientific
3 meetings and refresher courses and of purchasing books
4 and subscribing to journals on the science and practice
5 of dentistry.

6 16. "If an expense is incurred voluntarily by an
7 employee it should be subjected to the same tests as the
8 expenses of the self-employed. And since such cases
9 would be relatively few the cost to the Revenue of so
10 doing would be small." (Op. cit., McGregor, p. 21).

11 It is just as essential for the salaried dentist to
12 remain abreast of developments in dental health as it is
13 for his confrere in private practice. The ultimate
14 benefit derived from the dentist's continuing education
15 will accrue not to his employer but to the public the
16 dentist serves.



ANGUS. STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

1 CANADIAN COPPER & BRASS DEVELOPMENT ASSOCIATION

2
3 55 Yonge Street,
4 Toronto 1, Ontario

5
6 March 15, 1963.

7
8 Royal Commission on Taxation

9 OTTAWA, Ontario.

10
11 Gentlemen:

12 Alternative Methods
13 of Inventory Valuation

14 This brief has been prepared by a committee of
15 the Canadian Copper and Brass Development Association.

16
17 The Canadian Copper and Brass Development
18 Association represents the copper and brass industry of
19 Canada, its membership being comprised of companies
20 engaged in the following fields of production and
21 manufacture:-

- 22 - Primary Producers, Mining, Smelting & Refining
23 - Manufacturers of Mill Products
24 - Copper Rod Rollers
25 - Wire and Cable Manufacturers
26 - Wire and Wire Cloth Manufacturers
27 - Fitting and Specialties
28 - Castings
29
30



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2.

Should it be necessary for us to appear at a public hearing, our representative would be Mr. R. M. Skinner, Clarkson, Gordon & Company, 15 Wellington Street West, Toronto 1, Ontario.

Yours very truly,

R. Wardell,
Manager.

RW/dml

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ALTERNATIVE METHODS OF INVENTORY VALUATION

1. This Association submits that income tax regulations should recognize generally accepted accounting principles of the measurement of income, insofar as this is affected by inventory valuation.
2. This organization is largely composed of industries in which the cost of the material content of the finished article is the largest part of the total cost. Since the materials used (metals) are world commodities and subject to drastic price cycles, the products of copper and brass fabricators must be priced to reflect these frequent and often significant changes in raw material prices. It should be noted that an appreciable percentage of the production of the industry is sold in the export market.
3. Under present regulations, Canadian industry is required to value its inventories on what amounts to a first-in, first-out basis. This has the effect of seriously exaggerating profits in a rising market and similarly exaggerating losses in a falling market.
4. It is submitted that copper and brass fabricators necessarily have to maintain very substantial stocks of metals at all times. Although inventories are traditionally 'current assets' in the balance sheet, in point of fact no fabricator could operate without



1 large stocks, and from the inception of the business
2 this inventory is in fact a fixed asset.

3
4 5. Thus, the constant revaluation of this stock as
5 required by present income tax regulations is an
6 artificial exercise which does not reflect the true
7 nature of the operation. Furthermore, the
8 exaggerations it produces are misleading to all
9 but the best informed investors. On a rising market,
10 the result is an illusion of prosperity which
11 attracts demands for wage increases, increased
12 dividends and higher taxation. These demands come
13 when the business is least able to pay because the
14 increasing price of material automatically increases
15 the cash tied up in inventories and accounts
16 receivable. Conversely, when metal prices are
17 falling, the apparently drastic corporate losses
18 leave management open to unwarranted criticism.

19 6. Furthermore, it is recognized that methods of
20 inventory valuation have little or no effect on
21 total taxable income over a long period. The
22 amendments proposed by this Association, in
23 paragraph 7, would produce slightly less tax
24 revenue in a year of rising prices and slightly
25 more tax revenue in a year of falling prices,
26 which would be an advantage to the economy.

27
28 7. It is submitted that the problems outlined above
29 would be alleviated by amending the tax regulations
30 to permit using the last-in, first-out method of



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inventory valuation, as well as other recognized
methods conforming to the practice of the taxpayer.

8. Hypothetical illustrations are attached comparing
first-in, first-out; and last-in, first-out
inventory valuation methods, indicating their
effect on profits on a rising market (Appendix A)
and on a falling market (Appendix B).

9. It is also submitted that a broadening in outlook,
as recently applied to depreciation allowances for
tax purposes, could now be extended to inventory
valuation for tax purposes.

* * * * *



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APPENDIX "A"

Assuming price per pound at beginning of year to be 24¢, at end of year 33¢ average during year 30¢ and last-in, first-out inventory at 22¢.

HYPOTHETICAL ILLUSTRATION COMPARING FIRST-IN, FIRST-OUT, AND LAST-IN, FIRST-OUT ON A RISING MARKET

	First-in, first-out			Last-in, first-out		
	Pounds	Cents per Pound	Amount	Pounds	Cents per Pound	Amount
Sales:						
Material content	30 000 000	30.0¢	\$ 9 000 000	30 000 000	30.0¢	\$ 9 000 000
Processing charge		15.0	4 500 000		15.0	4 500 000
Total sales value	30 000 000	45.0¢	\$ 13 500 000	30 000 000	45.0¢	\$ 13 500 000
Cost of sales:						
Material cost -						
Opening inventory	10 000 000	24.0¢	\$ 2 400 000	10 000 000	22.0¢	\$ 2 200 000
Purchases	30 000 000	30.0	9 000 000	30 000 000	30.0	9 000 000
Less closing inventory	40 000 000	33.0¢	\$ 11 400 000	40 000 000	22.0¢	\$ 11 200 000
Cost of material sold	10 000 000		3 300 000	10 000 000		2 200 000
Manufacturing cost	30 000 000	27.0¢	\$ 8 100 000	30 000 000	30.0¢	\$ 9 000 000
		13.0	3 900 000		13.0	3 900 000
Total cost of sales	30 000 000	40.0¢	\$ 12 000 000	30 000 000	43.0¢	\$ 12 900 000
Profit			\$ 1 500 000			\$ 600 000

ROYAL COMMISSION ON TAXATION

HEARINGS

HELD AT

TORONTO
ONT.

VOLUME No.:

DATE:

14A

May 6, 1963

OFFICIAL REPORTERS
ANGUS, STONEHOUSE & CO., LTD.
BOARD OF TRADE BLDG.
11 ADELAIDE ST. W.
TORONTO

364-5865 (R. 24) 364-7383



ANGUS. STONEHOUSE & CO. LTD
TORONTO, ONTARIO

SUMMARY OF A MEMORANDUM

TO

THE ROYAL COMMISSION ON TAXATION

SUBMITTED BY

A.G.F. MANAGEMENT LIMITED

1. The subject of this memorandum is Section 69 of the Income Tax Act.

2. By reason of the addition to Section 69, in 1961, of sub-section 69 (2) (ba), there are now inequities in the Canadian tax laws which adversely affect the small investor as opposed to the larger investor, and a particular class of mutual fund as opposed to other institutions having responsibility for the investment of Canadian savings

3. Section 69 is ineffective in carrying out the policy which it is intended to implement.

4. The policy of using income taxation as a means of discouraging foreign investment of Canadian savings is undesirable because:

(a) it is unprecedented amongst sophisticated industrial nations;

(b) it is against the long-run interests of Canada, particularly because it adversely affects Canada's international balance of payments and the flow of investment funds into Canada.

5. We recommend the repeal of Sub-section 69 (2) (ba).



M E M O R A N D U M

TO: THE ROYAL COMMISSION ON TAXATION

SUBMITTED BY: A.G.F. MANAGEMENT LIMITED

INTRODUCTION

1. A.G.F. Management Limited which will be referred to as A.G.F. is engaged in the business of managing mutual funds and acting as a selling agent for securities issued by these funds. At the present time, A.G.F. is manager of and selling agent for the following mutual funds:

American Growth Fund Limited

European Growth Fund Limited

Canadian Trusteed Income Fund

2. The first two of these companies are incorporated under the laws of Canada. They issue shares to the public and invest the proceeds exclusively in marketable securities of American or Overseas "growth" companies as may be implied from their names. The shares issued by American Growth Fund Limited and European Growth Fund Limited are redeemable at the option of the shareholder at a price equal to the net asset value of the share as determined from time to time by the market value of the securities held by them.

3. Canadian Trusteed Income Fund is a trust fund which issues trust certificates to the public and which invests its funds primarily in fixed income securities. Like the two other funds, the securities issued to the public are redeemable at the option of the registered holder at a price equal to their book value.

4. The subject of our representations to you is the taxation of the income of Mutual Funds in Canada, particularly the income of Mutual Funds which invest in securities



1 other than Canadian securities.

2 HISTORY OF LEGISLATION

3 5. Special provisions as to the taxation of "invest-
4 ment companies" were first provided for in Sections 4 (w)
5 and 9(s) of the Income War Tax Act. Provisions analogous
6 to those found in the Income War Tax Act were incorporated
7 into Section 62 of The 1948 Income Tax Act. This section
8 provided special tax consideration for an "investment
9 company" and set out the conditions which a company would
10 have to comply with to qualify for special consideration.
11 Only two conditions applied to the investments of such
12 companies:

13 "62 (2) In this Act 'investment company' means
14 a corporation that . . . complied with the
15 following conditions,

16 (a) At least 80% of its property was, throughout
17 the year, shares, bonds, marketable securities
18 or cash; . . .

19 (c) not more than 10% of its property was,
20 throughout the year, shares, bonds, or securi-
21 ties of any one corporation or debtor other than
22 Her Majesty in the Right of Canada or of a
23 Province or a Canadian Municipality."

24 6. Section 69 of the Income Tax Act R.S. 1952 was
25 identical to Section 62 of The 1948 Income Tax Act. In
26 1955, by Section 14 (2), Chapter 54, 1955, paragraph (ba)
27 was added to Section 69 (2). With this addition, the
28 section then read as follows:

29 "69 (2) In this Act 'investment company' means
30 a corporation that . . . complied with the



1 following conditions:

2 (ba) not less than 60% of its gross revenue for
3 year was from dividends of taxable corporations."

4 A taxable corporation was defined as corporation resident
5 in Canada and not exempt from tax. Thus Section 69 (2)
6 (ba) introduced into Canadian income tax legislation, for
7 the first time, a provision apparently intended to
8 discourage the investment in foreign securities by Canadian
9 Mutual Funds.

10 7. Whether or not such an intention existed, the
11 following year the policy of the Government was clarified.
12 Section 16 (2), Chapter 39, (1956) repealed Section 69 (2)
13 (ba) and substituted the following:

14 "69 (2) In this Act 'investment company' means
15 a corporation that . . . complied with the
16 following conditions:

17 (ba) not more than 50% of its gross revenue
18 was from interest."

19 8. The foregoing provision applied until 1961, so
20 that through the greater part of the legislative history of
21 this section of the Income Tax Act, it has not been Govern-
22 ment policy to use this section of the Income Tax Act as a
23 means of directing the investment decisions of Canadian
24 Mutual Funds.

25 9. In 1961, by Section 7 (1), Chapter 17 (1961),
26 Section 69 (2) (ba) was amended and now the section reads
27 as follows:

28 "69 (2) In this Act 'investment company' means
29 a corporation that . . . complied with the
30 following conditions:



(ba) not less than 85% of its gross revenue for the year was from sources in Canada."

10. In summary, then, the position is as follows:

Prior to the amendments to Section 69 of the Income Tax Act in 1961, the provisions of Section 69 were designed so that an investment company or mutual fund was treated as a mere conduit pipe with respect to the income from its investments. By reason of the amendments to Section 69 effected in 1961, in order to qualify for tax treatment as aforesaid, an investment company must now obtain not less than 85% of its gross revenue for the year from sources in Canada. An investment company, therefore, investing substantially in foreign securities and to the extent that its income exceeds \$35,000 per annum, is required to pay corporation taxes on all its income at a rate of 52% whereas an investment company which obtains 85% of its gross revenue from sources in Canada pays taxes on its income from sources other than dividends from Canadian corporations, which are received without tax, at a rate of 21%.

An Appraisal of Section 69 (2) (ba)

11. We propose to examine Section 69 (2) (ba) from the following points of view:

1. The inequities which arise from it,
2. Its ineffectiveness.

12. We then propose to examine critically the policies which are implicit in legislation of this sort and comment on their long-run effects upon investment flows and Canada's international balance of payments.

Inequities of Section 69 (2) (ba)

13. The policy behind this section was described in



1 December 1960 by the former Minister of Finance, Donald
2 Fleming, during the introduction of his "baby budget."
3 At that time, Mr. Fleming said, in part, that the limits
4 of 15% on non-Canadian income

5 "leave room for (investment companies) to
6 achieve a desirable degree of liquidity and
7 diversification while at the same time ensuring
8 that the greater part of savings is channelled
9 through the hands of these companies into
10 Canadian enterprise."

11 14. The most obvious inequity arising out of this
12 legislation is that only one group of savings institutions
13 and only one group of investors are affected.

14 15. It is an established concept of investment manage-
15 ment philosophy that diversification of assets is a
16 desirable characteristic of an investment portfolio.
17 Diversification in this context means not merely diversifi-
18 cation amongst the securities of a particular market, but
19 also amongst a variety of markets.

20 16. The investment in foreign securities has been a
21 feature of a great number of investment portfolios held by
22 individuals in Canada whose holdings are large enough to
23 warrant the development of a knowledge of foreign securities
24 by themselves or their advisors. Prior to the establish-
25 ment of the Mutual Funds which A.G.F. now manages, the
26 principals of A.G.F. were actively engaged as security
27 advisors for a number of such accounts. This service is
28 still offered to larger investors and the number of clients
29 receiving this service and the size of the funds which are
30 involved have increased each year. American Growth Fund



1 Limited and European Growth Fund Limited were created to
2 enable smaller investors to receive the same advantages of
3 diversification into foreign securities markets which were
4 already enjoyed by larger investors. Until the amendments
5 of 1961, these two Mutual Funds were able to provide the
6 small investor with a means of investing in foreign securi-
7 ties markets on terms very similar to those which were
8 enjoyed by larger investors. As a result of the amendments
9 in 1961, this is no longer the case. The mutual fund
10 investor, no matter what his income bracket, bears tax on
11 his foreign income at a minimum effective rate of 32%.
12 This rate of taxation would not be reached by a person
13 investing directly in foreign securities until his income
14 had exceeded \$25,000 per annum.

15 17. It must be remembered that the small investor in
16 Canada who wishes to put his savings into common stocks is
17 limited to two choices, either direct investment or invest-
18 ment through mutual funds. As a general rule, Canadian
19 Mutual Funds have specialized in investing either in
20 Canadian securities or foreign securities. Many Canadian
21 mutual funds include some foreign securities in their port-
22 folios; however, if the small investor wishes to invest a
23 portion of his portfolio in a diversified group of foreign
24 securities, then he must purchase the shares of mutual funds
25 specializing in such securities and, as a result, he must
26 accept the additional tax burden.

27 18. This specialization within the Mutual Fund
28 industry has meant that any disadvantage Section 69 (2)
29 (ba) imposes on mutual funds holding more than 15% of their
30 investments in foreign securities falls more heavily upon



1 the foreign security "specialists." It is doubtful whether
2 any mutual fund is content with the 15% limitation. How-
3 ever, firms specializing in Canadian securities can comply
4 with the requirement without losing their identity as
5 specialists in "Canadian securities." Specialists in
6 foreign securities can only receive the benefits of Section
7 69 by ceasing to be specialists, which in view of their
8 obligations to their shareholders, is something they cannot
9 do.

10 Is the Legislation Effective?

11 19. The legislation is ineffective for two reasons:

12 Firstly: there are a number of ways in which
13 mutual funds can organize their affairs so that the tax
14 disadvantage which Section 69 imposes can be overcome;

15 Secondly: if the intention of the legislation is
16 to increase the flow of savings into Canadian common stocks,
17 then the only effective way to carry out such an intention
18 would be to pass legislation which would affect all forms
19 of saving and savings institutions. At the time the legis-
20 lation was introduced, the Canadian Mutual Fund industry,
21 taken as a whole, was, by some standards, over-invested in
22 Canadian common stocks so that despite this incentive to
23 invest at home, the number of funds specializing in foreign
24 investments have, in fact, increased.

25 20. We do not propose to deal at any length with the
26 ways in which tax advantages of Section 69 can be negated.
27 We trust that it will be sufficient for the purpose of
28 illustrating the weakness of Section 69, to outline briefly
29 two methods which could be used.

30 21. The section applies only to corporations resident



1 in Canada. Therefore, an unincorporated body, such as a
2 trust, even though resident in Canada, would have none of
3 the disadvantages of a corporate body. The income of a
4 trust is simply the income of participants in the trust,
5 so that the individual participant would pay tax on foreign
6 income at his personal rate. Mutual Funds have been orga-
7 nized as trusts in the past and will continue to be so
8 organized in the future - nothing in the present legisla-
9 tion discourages investment by such trusts in foreign secu-
10 rities.

11 22. Similarly, Section 69 does not apply to corpora-
12 tions resident outside Canada. It is possible to organize
13 a mutual fund which issues securities in Canada and yet is
14 resident in a foreign jurisdiction. Section 69 does nothing
15 to discourage the acquisition of foreign securities by these
16 "off shore" mutual funds.

17 23. It is worth noting that the creation of "off
18 shore" mutual funds for Canadian investors usually involves
19 a loss of tax revenue for Canada, particularly a loss of
20 taxes resulting from estate duties. The foreign jurisdic-
21 tion frequently imposes some form of estate duty on shares
22 of local corporations and such duty would usually be allowed
23 as a deduction from Canadian Estate Tax.

24 24. Whether or not the provisions of Section 69 can
25 be successfully circumvented, there has been no apparent
26 diminution in the interest mutual funds have shown in
27 foreign securities since the enactment of this legislation.



PORTFOLIO DEVELOPMENT OF FIVE LARGEST
CANADIAN-OWNED MUTUAL FUNDS *

(Representing about 73% of the Industry's Total Assets)

	1960 \$ Mill.	1961 \$ Mill.	1962 \$ Mill.	1960-62 Increase	
				\$ Mill.	%
<u>COMPOSITE (5 Funds)</u>					
Total Net Assets	446	594	604	158	35.4
Bonds-Pref. & Liquid	134	136	146	12	9.0
Canadian Common Stock	264	380 (59.2%)	384 (64.1%)	120	45.5
External Common Stock	48	78 (10.8%)	74 (13.1%)	26	54.2

* Source: Annual and Quarterly Reports:

Investors Mutual of Canada
Canadian Investment Fund
Investors Growth Fund
Commonwealth International
Mutual Accumulating Fund

Securities taken at Market Value



1 26. It is also significant that newly promoted funds
2 have put a heavy emphasis on external investment. Of the
3 eleven Funds added to the Globe and Mail Daily List since
4 December 1960, five put the emphasis on external investment.
5 These are:

	<u>Starting date</u>
6 European Growth Fund - Canadian-managed	
7 and incorporated	1961
8 Canada Growth Fund - Canadian-managed	
9 and trustee	1961
10 Investors International Fund - Canadian-	
11 managed and incorporated	1962
12 International Growth Funds - Swiss-	
13 managed and incorporated	1962
14 Putnam Growth Fund - U.S.A.-managed and	
15 incorporated	1962
16 (Canada)	

17 Lesser publicized international investment trust
18 operations introduced over the same period to Canada
19 include:

20 Formula Growth Fund - Canadian-managed	
21 and trustee	1960
22 Stockhold Foreign Investments - Canadian-	
23 managed and incorporated	1961
24 Selected Overseas Investments - English-	
25 managed and Canadian-incorporated	1963
26 Incubation Group Investments - U.S.A.-	
27 managed and Canadian-incorporated	1963

28 27. Except for Formula Growth and European Growth,
29 these Funds were conceived and put into motion in full
30



1 knowledge of the taxation penalty on external investment.

2 28. What we have said so far is that this legislation
3 is ineffective because it shows little comprehension of the
4 anatomy of the Mutual Fund industry. In the broader context,
5 it is ineffective because the policy it is supposed to
6 implement shows little comprehension of the significance
7 of the Mutual Fund industry within the group of financial
8 and industrial organizations which have the responsibility
9 for the investment of the savings of our Canadian society.

10 29. Effective legislation to encourage the investment
11 of savings in Canadian equities would have to be directed
12 not only to individual Canadian investors and to mutual
13 funds but also to insurance companies and large industrial
14 concerns.

15 30. Common stock now accounts for a relatively small
16 portion of life insurance company portfolios, smaller than
17 would be permitted by the legislation which controls
18 insurance company investment, and smaller even than the
19 portion of their foreign portfolios that many of these same
20 companies hold in foreign equities.

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1960 SECURITY PORTFOLIO DISTRIBUTION

REPRESENTATIVE CANADIAN INTERNATIONAL LIFE

INSURANCE COMPANIES*

COMPOSITE (THREE COMPANIES)

(\$ Mill)

	<u>Bonds</u>	<u>Pfd.</u>	<u>Common</u>	<u>Totals</u>
Canadian	487	1.0	31.2 (6.0%)	519.2
Sterling & European	247	1.9	15.5 (5.9%)	264.4
U.S.A.	<u>327</u>	<u>58.3</u>	<u>55.4 (12.6%)</u>	<u>440.7</u>
	1,061	61.2	102.1 (8.3%)	1,224.3

* SOURCE - SCHEDULES A & B - Annual Statements to Superintendent of Insurance

Manufacturers Life

Canada Life

Confederation Life

Dated Bonds at Par Value

Undated Bonds at Market Value

Preferred Stock at Book Value

Common Stock at Market Value

31. Large industrial concerns in Canada have commanded over a considerable portion of the communities' savings through their control of undistributed profits. Many of these companies have aggressively expanded their investment in foreign subsidiaries and no taxation policies that we know of have been specifically designed to discourage them from doing so.

32. We are not arguing that such companies as Weston's, Canadian Breweries or Massey Ferguson should be encouraged by tax incentives to turn their backs on foreign investment, or that Canadian Insurance Companies should be encouraged



1 by tax incentive to assume a greater role in equity finan-
2 cing in Canada. However, we do submit that a policy to
3 encourage greater Canadian participation in Canadian equi-
4 ties cannot be effectively or equitably carried out by
5 legislation which affects the Mutual Fund industry alone.

6 PRESENT POLICY - A critical review

7 33. Looking at this matter in the primary context of
8 how it affects Canada's overall economic health, we will
9 accept for the moment the basic premise of the 1961 legis-
10 lation that external investment in Canada had reached
11 undue proportions and was a source of danger. Having made
12 the decision to use taxation as a weapon to further restrain
13 the inward flow of capital, it may have seemed logical to
14 help by fiscal means to ensure that Canadian savings filled
15 any resultant investment gap. It did not seem logical,
16 and is not derived from the practice of any other sophisti-
17 cated industrial nation, to direct the domestic taxation
18 pressures against the savings segment which in Canada
19 already plays the biggest role in risk-taking while much
20 larger interests are left undisturbed or privileged in
21 their tax status while pursuing their external investment
22 interests vigorously.

23 34. The whole thinking behind all aspects of the 1961
24 legislation should be up for re-appraisal, however, in the
25 light of events which have subsequently transpired. Dangers
26 to Canadian development which equal or replace those arising
27 from foreign investment were brought to the fore in the
28 1962 currency crisis and austerity programme. Internal
29 and external regard for our currency and future interrupted
30 a vigorous economic recovery well short of optimum



utilization of our manpower and capital resources. The specific policy under discussion here relates directly to two of the sources of concern which precipitated our last crisis and are capable of repeating the performance.

These are:

1. Balance of payments

2. Canadian economic nationalism

1. Balance of payments - While the past two years have produced a welcome balance in our external merchandise

trade, we are still faced with a massive deficit in invisi-
bles which puts our Current Account Balance into present
and prospective minus figures for some time to come.

Aside from running down our exchange reserves and eventually
going bankrupt, this can be financed in only three ways:

(a) Moving into a surplus position on merchandise trade.

Canada's reliance on external commerce and retention of trading partners' goodwill was never more important. The importance in this respect of a free flow of investment abroad for a trading nation is cogently summarized in the opening paragraph of the U.K. Radcliffe Report, Section 731 of Control of Overseas Investment:

"The Overseas investments built up by the United Kingdom have contributed to the cheapening of transport costs, the enlargement of the world market, and the advancement of living standards through new trading opportunities. Apart from the private return to the investor, they have formed an important element in the balancing of the United Kingdom's international accounts and of the financial resources that could be



1 mobilised in time of war. They are also an
2 integral part of the system that binds together
3 in mutual dependence the economies of the United
4 Kingdom and the great primary producing countries
5 of the world."

6 (b) Bringing the invisible account into balance.

7 World trade and tariff positions remain in a
8 state of flux; Canada's merchandise export drive is proper
9 and necessary but the prospect of a surplus beyond tariff
10 surcharges and devaluation effects remains indistinct.
11 Many nations, however, conventionally offset a merchandise
12 trade deficit with "invisible" earnings, Holland, Switzer-
13 land and Great Britain being the notable examples. Canada's
14 much publicised 1962 success with tourism on this score
15 should not obscure the consistent contribution to our
16 "invisible earnings" which financial services and Canadian-
17 based international industrial organizations have made.
18 The importance Britain attaches to this factor is instanced
19 by the above quotation from the Radcliffe Report. Their
20 encouragement of the Investment Trust role in the process
21 is instanced by the Radcliffe Report reference (Section 268)
22 to the rise in dollar security proportions of total Trust
23 assets from 5% in 1949 to 31% in 1957. Despite Britain's
24 knife-edge position in international finance over the
25 period, taxation deterrents to this process have been
26 noticeably absent; indeed, double taxation relief has been
27 accorded to them as to all U.K. taxpayers, to make external
28 investments that much more attractive.

29 (c) Surplus on Capital Account Balance of Payments.

30 This item, which is the international economists'



1 way of expressing net capital imports, has been the conven-
2 tional offset to Current Account deficits during Canada's
3 intensive postwar periods of expansion. The technique has
4 been variously termed by its detractors as living beyond
5 our means, selling our birthright and mortgaging our
6 future. Whatever the patriotic or economic rationale, it
7 is virtually certain that neither (a) nor (b) above can
8 improve sufficiently to offset continued reliance on
9 capital imports to quite a degree over the next decade.
10 The lengths to which we had to go to induce the return of
11 foreign capital in our crisis of last summer should lead
12 us to think twice about its future abuse and harassment.
13 Recent British and American commentaries, linked to their
14 own Balance of Payments difficulties, have emphasized that
15 capital-flows are a two-way street; they have resisted, in
16 their own interest, temptations to impose new deterrents
17 to external investment for fear of reprisals. Canada's
18 1961 taxation enactments are a clear negation of liberal
19 tendencies in this respect and leave the way clear for
20 reprisals at a tender stage of our economic development.
21 Should such reprisals materialize in another crisis of the
22 1962 order, the ensuing austerity programme could be very
23 severe indeed.

24 2. Canadian Economic Nationalism - It is possible to give
25 two intonations to this heading and one is salutary. How-
26 ever, in a nation so tied by history and economics to the
27 external world, Canada has to be concerned that the image
28 it projects is a liberal and outgoing one. Referring back
29 to the Radcliffe summation of the case for external invest-
30 ment, it will be noted that the objectives are a mixture of



1 self-interest and international responsibility; the two
2 elements coincide in the long run.

3 The fight for international responsibility has
4 toughened since the Radcliffe Report and since 1960. Our
5 English-speaking North Atlantic partners are spearheading
6 the drive to maintain momentum in postwar trends toward
7 liberal trading policies, free flows of capital and aid to
8 underdeveloped countries, often from positions of basic
9 economic strength no greater than our own. It, therefore,
10 does us little credit to be out of step on the question of
11 exchange rate policies, tariff surcharges, foreign aid or
12 external investment disincentives. It will hamstring our
13 efforts to collaborate in eventual solutions with the
14 powers-to-be.

15 Canada has moved or is moving into step in
16 respect of most of these policies for the common good. The
17 taxation under discussion in this Brief, however, calls
18 into question our attitude toward the free flow of capital.
19 The fact that Britain, Holland, Sweden and Switzerland
20 have had to face up to problems on both sides of the capital
21 flow issue but did not resort to extended taxation deter-
22 rents should re-open the matter for discussion here. We
23 submit that the whole concept of preventing risk capital
24 from flowing abroad through domestic taxation policies
25 requires review.

26 There is another aspect of present policy which
27 we believe adversely affects the long-run interests of
28 Canada. The Mutual Fund industry in Canada has made a
29 beginning in the establishment of a corps of international
30 financial experts. These experts exist to service



1 Canadian investors and to the extent that Canadians use
2 their services and not those of foreign financial institu-
3 tions, there is a net gain to our economy. It would not
4 be unreasonable to anticipate that in the future Canadian
5 mutual funds or Canadian investment advisors will be provi-
6 ding services upon an international basis. The advantages
7 to Canada of extending the international influence of our
8 financial community need little comment. The obvious bene-
9 fits are the added employment which will be provided in the
10 service sector of our economy and the contribution which
11 will be made to our foreign exchange earnings. The less
12 obvious benefits will accrue from the development of skills
13 and experience by Canadians in fields of international
14 investment and trade, skills which are now found far too
15 infrequently in either Canadian Government or Canadian
16 industry.

17 Summary

18 Looked at from either of the key headings of the
19 Commission's interest, Canada's Economic Welfare or the
20 Usefulness and Equity of the tax-mix, it is felt that the
21 statute operates in a sufficiently retrograde, discrimina-
22 tory, misdirected, ineffective and illiberal way as to
23 justify its removal. There is no reason to think that it
24 will make any more useful contribution to meeting Canada's
25 challenges in the future than it has in the two years of
26 its existence. Indeed, as argued above, it contains cer-
27 tain dangers.

28

29

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ANGUS. STONEHOUSE & CO. LTD
TORONTO, ONTARIO

1 Submission from J. W. M. Dixon, Comptroller and
2 Assistant Secretary, S.S. Kresge Company Limited.
3
4

5
6 SUMMARY

- 7
8 1. The effect of Section 64 of the Income Tax act is
9 confiscatory in the year of death for commissioned
10 employees.
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12 2. Section 64 should be amended to tax income in the
13 year of receipt rather than the year of death.
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To the Chairman and Members,
Royal Commission on Taxation

1. This memorandum concerns Section 64 of the Income Tax Act as it affects managers and executives of S.S. Kresge Company Limited who receive part or all of their earnings as a commission based on profits. It also includes certain salaried executives who do not draw their full salary in the year in which it is earned.
2. The point raised here is also of general application, as it would apply wherever salaried or commissioned employees do not receive all their earnings during the taxation year in which they are earned.
3. The store managers and executives of S.S. Kresge Company Limited are paid for the calendar year (which is also the fiscal year of the company) on a contract arrangement based on profits. Their earnings for the year cannot be determined until the profits are known, and this means on or about the third week after the end of the year. During the year these employees draw a portion of their earnings, (often a small portion) and receive the balance in January following the determination of profits.
4. For tax purposes, the employee is on a cash received basis with the Dept. of National Revenue; therefore,



1 his taxable income in a given year does not agree
2 with his earned income. This follows a direction
3 of the Department dated April 27, 1949, signed
4 W. D. Inrig, Acting Chief Assessor, Individual
5 Assessments Branch. Said direction confirmed the
6 arrangements set out in a letter to the Director
7 General of Income Tax from Price Waterhouse & Co.
8 dated April 12, 1949, which contained the following:

9 "Mr. Inrig pointed out that under the
10 new Income Tax Act, which becomes
11 effective January 1, 1949, it would
12 be necessary to place these individuals
13 on a cash basis as from that date."
14

15 5. Historically it is interesting to note that
16 employees of this company were on a cash basis prior
17 to 1936; in that year they were required by the
18 Income Tax Department to report income for two years
19 in order to go on an accrued basis. Then in 1949,
20 they were placed on a cash basis once more.

21
22 6. So long as the employee lives to the end of the
23 taxation year, the cash basis works no hardship.
24 But should he die during a working year, Section 64
25 of the Income Tax Act requires that the balance of
26 income owing or accrued at the date of death shall
27 become taxable income in the year of death, whether
28 or not the amount is determinable or payable at that
29 time. This has the effect of accumulating in one
30 taxation year the balance of earnings from the



1 previous year, plus all the earnings in the current
2 year.

- 3
4 7. The point can be illustrated by the following
5 hypothetical case of an executive with earnings of
6 \$30,000 per annum, and an annual drawing allowance
7 of \$6,000. Assuming the employee died on December 1,
8 his earnings in the year of death would be \$27,500,
9 but he would be taxed on a total of \$51,500.

10 Balance of income from preceding
11 year received in January \$24,000

12
13 Drawing allowance January - November 5,500

14 Balance of earnings for the year
15 of death (\$27,500 - \$5,500) 22,000

16
17 Taxable income \$51,500
18

- 19 8. Other illustrations could be given involving lower
20 amounts of income which would be proportionately
21 difficult for the taxpayer's dependents.

- 22
23 9. In our opinion, this is an inequity of the Income
24 Tax Act which should be removed by amending Section
25 64 to permit income to be taxed in the year of
26 receipt rather than the year of death.

- 27 10. An alternative solution would be to permit taxation
28 in the year of death at the average rate of tax of
29 the decedent's income over the preceding three year
30



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5.

1
2 period (as in the case of lump sum payments.)
3
4

5 J. W. M. Dixon

6 Comptroller and Assistant Secretary

7 S. S. Kresge Company Limited.
8

9 TORONTO, ONTARIO,
10

11 March 18, 1963.
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1
2 BRIEF

3 TO

4 THE ROYAL COMMISSION ON TAXATION

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7 "ASSESSMENTS AND APPEALS

8 UNDER

9 THE INCOME TAX ACT"

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13
14 MARCH 29th, 1963

15
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17 by

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19 SUNBEAM CORPORATION (CANADA) LIMITED
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1 SUMMARY

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3 MAIN CONCLUSIONS

4 1. Under the Income Tax Act and the administration
5 thereof, there is too great a time lapse between the
6 taxable income of a taxation year, as determined by the
7 taxpayer, and the final determination of this amount as
8 determined by law under the administration.

9

10 RECOMMENDATIONS

11 1. As there are no longer consolidated returns
12 filed, and with the modern concepts and facilities avail-
13 able to corporations, it is recommended that the filing
14 of company returns be required at some period less than
15 six months from their fiscal closing. Four months is
16 hereby recommended.

17 2. It is recommended that the administration
18 maintain sufficient and competent audit staff, to issue
19 a final assessment to the taxpayer within one year from
20 the date of filing. It is deemed necessary to maintain
21 the four year, re-appraisal period and of course the
22 assessment would be subject to appeal. This is to infer,
23 directly, that an audit be made within one year from the
24 date of filing and not, as is the department's practice,
25 to issue an interim assessment, and audit anytime there-
26 after within the four year period.

27 3. To avoid the lengthy delays, between hearings
28 on appeals, it is recommended that our Exchequer and
29 Supreme Courts be endowed with sufficient funds and
30 personnel to hear and decide upon cases within a reason-



1 able length of time.

2

3 THE BRIEF

4 A C ASE HISTORY-"MOSS COLLECTED HERE."

5

6 1. For the fiscal year ended December 27th, 1952,
7 the Province of Quebec taxing authorities ruled that
8 Sunbeam Corporation (Canada) Limited were subject to
9 Quebec Corporation Tax. Sunbeam had a resident salesman
10 in the Province of Quebec.

11 2. In the years under review, 1952, 1953, and 1954.
12 Sunbeam elected to deduct an amount as a tax credit for
13 income taxes paid to the Province of Quebec.

14 3. These deductions were subsequently disallowed
15 as Sunbeam was deemed by the Department not to have a
16 permanent establishment in the Province of Quebec.

17 4. Exhibit "A" attached, serves to illustrate the
18 time involved to reach a final decision. It is true
19 that Sunbeam could have accepted any unfavourable decision
20 as final, along the way. To turn the wheels of justice
21 to the end of the road consumed far too much time for any
22 corporation in these modern times.

23 5. Exhibit "A" also reveals the amount of money
24 involved, and indicates the sums are not negligible.

25 6. Although the Appeal Board decision was favour-
26 able, there did not seem to be, in the Exchequer Court,
27 nor in the Supreme Court any great difficulty in inter-
28 preting the law or the facts. There would seem to be no
29 ground for delay on these points.

30 7. The delay would appear to be in the timing of



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1 re-assessments and in the hearing of the case before the
2 appeal courts.

3 8. It is our belief that the audited assessments
4 should be made promptly and that re-assessments within
5 the four year period as permitted should not be used as
6 an administrative tool to catch up on a backlog of work.

7 9. It has also caused us concern that the wheels
8 of the appeal courts grind so slowly. Surely there are
9 more men endowed with the wisdom of our senior judiciary.
10 If we must attract these men to these important positions,
11 let us wisely spend our money and do so.

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1 EXHIBIT "A"

2 SUNBEAM CORPORATION (CANADA) LIMITED

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4 1) Fiscal Year Ended December 27th, 1952:

5 T-2 Filed June 26th, 1953

6 Assessment August 5th, 1953

7 Re-Assessment November 18th, 1953

8 Re-Assessment September 8th, 1955

9 2) Fiscal Year Ended December 26th, 1953:

10 T-2 Filed June 22nd, 1954

11 Assessment July 29th, 1954

12 Re-Assessment September 8th, 1955

13 3) Fiscal Year Ended March 27th, 1954 (Three Months):

14 T-2 Filed September 24th, 1954

15 Assessment October 25th, 1954

16 Re-Assessment September 8th, 1955

17 4) Income Tax Appeal Board - Taxation Years - 1952,

18 1953, 1954:

19 Notice of Objection filed - January 10th, 1956

20 Hearing June 19th, 1958

21 Decision released June 23rd, 1958

22 5) Exchequer Court of Canada - Taxation Years - 1952,

23 1953, 1954:

24 Appeal filed - by the Crown

25 Hearing January 23rd, 1961

26 Decision released February 23rd, 1961

27 6) Supreme Court of Canada - Taxation Years - 1952,

28 1953, 1954:

29 Appeal filed April 19th, 1961

30 Hearing October 1962



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1 EXHIBIT "A" (continued)

2 Decision released December 6th, 1962.

3 7) Tax Involved - Directly - under appeal

4 Fiscal Year 1952 - \$ 6,777

5 1953 - 18,242

6 1954 - 1,683 (Three Months)

7 Indirectly - affected by appeal

8 Fiscal Year 1955 - 14,978

9 1956 - 17,682 (Eleven Months)

10 1957 - 19,060

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TOWNSHIPS OF

SALTER, MAY & HARROW

Massey, Ontario.

Royal Commission on Taxation February 27, 1963

PREFACE

1. This memorandum deals with one aspect of the inequality of taxation at the municipal level. The Crown does receive revenue from the sale of produce from Crown lands, the same as the private land owner.

2. The Crown does NOT pay municipal taxes on these lands, BUT the private land owners does.

3. The municipality, is obliged to maintain roads to and through Crown lands, and the private land owner pays the cost.

4. Solution would be to cause the Crown lands to become taxable, or that a grant be made au lieu de taxation, or a fee be paid to the municipality for sales made from Crown lands.

FACTUAL INFORMATION

5. In this municipality, the Townships of Salter, May & Harrow, 32% of our land area is owned by the Crown, accounting for 32% of our total land assessment.

RECOMMENDATIONS

6. (a) Survey the entire province and or dominion to ascertain the amount of Crown land located in municipalities in relationship to their total acreage and assessment.

7. (b) Ascertain the actual value of revenues taken from Crown lands by the higher governments.

8. (c) Investigate the difficulty involved in patenting Crown lands.



1 9. (d) Since a land owner should receive the same
2 price for his commodity as that off of Crown land, it does
3 not seem fair that the Crown should obtain this revenue
4 municipal tax free, while the private land owner has to
5 figure on paying municipal tax on this property as long as
6 he owns it.

7 10. (e) Allow Crown lands to be subject to municipal
8 taxation.

9 or

10 11. (f) Designate a percentage revenue to be paid to
11 municipality concerned, based on the sale of the commodity.

12 12. (g) Lower the requirements for patenting Crown
13 lands.

14 13. (h) A combination of (e) and (f) and (g).

15 Austin Clipperton
16 Clerk
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5 MEMORANDUM FOR PRESENTATION TO
6 THE ROYAL COMMISSION ON TAXATION
7 AT
8 TORONTO, ONTARIO ON MAY 8, 1963.
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23 The Canadian Federation of Business and Professional
24 Womens' Clubs,
25 352 MacLaren Street, Ottawa 4, Ontario.
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THE CANADIAN FEDERATION OF BUSINESS AND PROFESSIONAL
WOMEN'S CLUBS

MEMORANDUM FOR PRESENTATION TO
THE ROYAL COMMISSION ON TAXATION
AT TORONTO, ONTARIO IN MAY, 1963.

I. SUMMARY OF RECOMMENDATIONS

The Canadian Federation of Business and Professional Women's Clubs requests that the Commission consider and recommend action regarding the following matters:-

1. (a) THAT the Commission recognize taxation as a powerful instrument in the hands of government for the control and manipulation of the Canadian economy: (see Appendix 1)
- (b) THAT the Commission formulate general policy regarding the use by government of taxation as an instrument for control and manipulation of the Canadian economy. (see Appendix 1)
2. THAT Section 21 of the Income Tax Act be amended by:-
 - (a) repealing of s.s.(2), (3) and (4) on the grounds that they work unfair and unjustifiable hardship on spouses who conduct a professional partnership or a joint, unincorporated business. (see App.2)
 - (b) providing that where the services are actually performed and the compensation does not exceed what would be reasonable in the circumstances if



1 the employer and the spouse had been dealing at
2 "arm's length," the remuneration received by the
3 employee spouse be a deductible expense of the
4 employer spouse in the conduct of the business,
5 and be treated as separate income in the hands
6 of the employee spouse. (see Appendix 2)

7
8 3. THAT s.s. (1) of Section 26 of the Income Tax Act
9 be amended to provide an additional exemption of
10 \$500. to the taxpayer on behalf of the dependent
11 where both taxpayer and dependant are 65 years of
12 age or over.(see Appendix 3)

13 4. THAT s.s.(1) of Section 26 of the Income Tax Act be
14 amended to provide an additional exemption of \$1000
15 for working women for housekeeping services, similar
16 to that now permitted to the unmarried clergyman and
17 minister. (see Appendix 4)

18 5. THAT s.s.(2) of Section 26 of the Income Tax Act be
19 amended to permit the dependent spouse to earn up to
20 \$950. annually instead of the present \$250. without
21 reduction of the marital exemption of the taxpayer
22 spouse (see Appendix 5)

23
24 6. THAT paragraph (c), s.s.(1) of Section 27 of the
25 Income Tax Act be amended to provide that the total
26 amount of allowable medical expense of the taxpayer
27 and his dependents be an exemption from income, in
28 lieu of the present provision whereby only that
29 portion of medical expenses in excess of 3% of the
30 taxpayer's income may be deducted. (see Appendix 6)



- 1 7. THAT s.s.(3) of Section 47 of the Estate Tax Act be
2 amended to provide that the value of any property
3 passing on a death which may be paid out without the
4 consent of the Minister, be increased from the
5 present amount of \$1500. to \$2500. in the case of
6 any one transferror, deliverer or payer. (see
7 Appendix 7)
8
9 8. THAT no estate tax be levied on values which do not
10 actually come into being for the widow. (see
11 Appendix 8)

12 II. COMPOSITION OF THE FEDERATION

13 The Canadian Federation of Business and
14 Professional Women's Clubs was established in 1930
15 by federal charter as a non-sectarian, non-partisan
16 organization without share capital and without
17 purposes of gain for its members. It is an Active
18 Member of the International Federation of Business
19 and Professional Women which was formed in the same
20 year.

21 Today the Federation comprises some 174 Clubs
22 across Canada which are composed of women engaged in
23 business, industry and the professions. (see enclosed
24 brochure).

25
26 III. PURPOSES AND OBJECTS OF THE FEDERATION

27 The purposes and objects of the Canadian
28 Federation of Business and Professional Women's Clubs
29 are as follows:-

- 30 a) to develop and train women for leadership and



responsibility in business, industry and the professions.

b) to improve economic, employment and social conditions for women.

c) to work for high standards of service in business, industry and the professions and public life.

d) to stimulate interest in federal, provincial and municipal affairs, and to encourage women to participate in the business of government at all levels.

IV. GENERAL COMMENT

The Canadian Federation of Business and Professional Women's Clubs welcomes this opportunity of presenting its recommendations to the Commission.

This submission takes the form of a series of recommendations on both policy and practice, with accompanying arguments in support of the recommendations. The recommendations dealing with practice are limited chiefly to inequities and disability that create hardship for working women.

Respectfully submitted,

Trecia M. Kyle

Elsie Gregory MacGill

Honorary Secretary-Treas.

President

March 25th, 1963.



APPENDIX 1

1. RECOMMENDATION 1

(a) THAT the Commission recognize taxation as a powerful instrument in the hands of government for the control and manipulation of the Canadian economy.

1. In the above, we invite the Commission's attention to, and consideration of the entire field of federal taxation - including personal and corporation income taxes, estate taxes, and sales and excise taxes.

2. Our specific recommendations we limit to the fields of personal income taxes and estate taxes. Throughout our discussion we recognize that personal income taxes and estate taxes are tools in the hands of government which it can use at will to control the economy.

3. During the past three decades in Canada there has been a considerable increase in technological development and industrialization. Along with this has come a steady rise in the average income, especially in that of the lower income groups, accompanied by a redistribution of income among groups which has shifted the economic centre of gravity upward. Canadian purchasing power, especially that of the lower income groups has greatly increased and has given rise to a further spiraling upward of national productivity and expansion.

4. Government is dependent upon economic growth and industrial expansion for the maintenance of a



1 sufficient flow of revenue, and these, in turn, are
2 dependent upon general purchasing power, capital formation,
3 and the combined skills of our people. Graduated
4 personal income tax rates profoundly influence the
5 decisions and capacities of individuals with respect to
6 A) spending, saving, and investing
7 B) the acquisition and employment of skills.

8 5. With respect to spending by individuals, it
9 is apparent that tax incentives which increase personal
10 disposable income, or real purchasing power, may produce
11 immediate stimulation of purchases, particularly for
12 lower income groups, with consequent increase in business
13 and employment.

14 6. With respect to saving and investing, some
15 experts consider that the levels of taxation which have
16 prevailed since World War II have severely hampered the
17 ability of Canadian individuals to save and invest their
18 savings, and that this has considerably more to do with
19 the failure of Canadians to invest adequately in their
20 own economy than any lack of enterprising spirit in the
21 Canadian character. Furthermore, some consider that the
22 incidence of taxation is weighed by every prudent
23 Canadian investor, and that these considerations
24 frequently channel funds away from investments which
25 would provide greater benefits to both the individual
26 and the Canadian economy.

27 7. With respect to item (B), we consider that
28 the ability and willingness of individuals to acquire
29 and employ skills are a most important national asset,
30 and we invite the Commission to discover whether or not



1 our steeply-graduated personal income tax rates provide
2 sufficient incentive to induce our people to equip
3 themselves to make the maximum contribution of which
4 they are capable.

5 8. Over the years the income tax law has built
6 up into a formidable body of complex rulings riddled
7 with exceptions. A tax exemption to one class of
8 person has sometimes produced an inequity for another,
9 and the general result has been to shift an increasing
10 proportion of the taxation burden onto a diminishing
11 core of unrelieved taxpayers. Under these circumstances,
12 organizations such as ours can only chip away at specific
13 inequities felt by its membership. It is apparent that
14 more is needed than a mere simplification of the tax
15 structure.

16 9. We recognize also that under any tax structure
17 a variety of systems is possible. With respect to
18 personal income taxation we invite the Commission's
19 consideration of the following:-

20 A) the substitution of income-splitting between spouses,
21 as is permitted in the United States of America, in
22 lieu of the present marital exemption.

23 B) the substitution of a flat tax rate instead of the
24 present graduated rate scale.

25 C) the use of direct tax credits in lieu of the present
26 exemptions from net income.

27 b) THAT the Commission formulate general policy regarding
28 the use by government of taxation as an instrument
29 for the control and manipulation of the Canadian
30 economy.



1 8. Taxation policy is an expression of the
2 prevailing social attitudes of a nation. This becomes
3 apparent as we watch the emerging nations changing from
4 a peasant and rural society to an industrialized and
5 urban one. In them, we readily recognize that social
6 attitudes can be an endemic cause of low output per
7 capita and that before they can fully develop economically,
8 they must change their customs and transform their society
9 into something quite different. An example of this is
10 the "caste" system by which certain jobs may be performed
11 only by people belonging to certain castes, and people
12 belonging to certain castes are permitted to work only
13 at certain jobs.

14 9. Even with this example before our eyes, it is
15 perhaps difficult for Canadians generally to recognize
16 that in Canada, too, social attitudes must change before
17 economic change is possible. Indeed, at this time, social
18 attitudes in Canada are in a state of flux, as our nation
19 strains toward a greater degree of industrialization and
20 economic development.

21 10. We consider that before all-out industrialization
22 can develop or function in Canada, the Canadian
23 traditional social attitudes toward women must change.
24 One of these traditional views which is still reflected
25 in our current taxing statutes is the lack of acceptance
26 of the potential economic contribution obtainable from
27 married and single women, with the consequent waste today
28 of a significant proportion of the nation's ability and
29 capacity. Furthermore we strongly believe that the
30 taxing statutes should be voided of their skeptical and



1 belittling attitude toward the economic contributions
2 of married women, and should accord married women the
3 same acceptance granted to men and to single women.

4 11. Other changes which we consider must come, but
5 which the taxing statutes may not directly affect are
6 the following:-

- 7 A) the extension of the same degree of social approval
8 to seek higher education and career training in all
9 fields of endeavour to girls as is now accorded to
10 boys.
- 11 B) wide acceptance of women in public office and public
12 life.
- 13 C) elimination of differentials in rates of pay between
14 men and women.
- 15 D) Elimination of traditional obstacles to employment
16 placed in the way of married women.
- 17 E) elimination of unfair and unrealistic disabilities
18 in wages, salaries, career opportunities, job levels,
19 employment benefits (including hospital benefits,
20 pension and retirement plans) which discourage
21 women from taking employment and penalize and
22 dishearten them when they do.
- 23 F) recognition of the equality of the spouses in the
24 marriage partnership (see Appendix 8, page 21)

25 12. Each such change listed above is a reversal of
26 traditional (but still current) Canadian thought which
27 is the basis of today's Canadian law and custom. These
28 traditional views belong to an earlier and different way
29 of life in Canada - when women generally lacked
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1 professional knowledge and vocational training: when
2 they worked for very low wages or for no wages at all:
3 when the wife's legal and social identity was completely
4 submerged in that of her husband. These conditions no
5 longer obtain; the attitudes are changing, will continue
6 to change and, probably, at an increased temp. Canadian
7 social and economic development requires and depends
8 upon a better utilization of Canadian talent.

9 13. The change of condition which brings an
10 advantage at one point may bring a disadvantage at
11 another, and that which benefits one person may penalize
12 another. Equality of opportunities and rewards call
13 for equality of sacrifice. We recognize that this is
14 the price that women, no less than men, will pay as
15 Canada sloughs off her traditional ways. We consider
16 that Canadian life, particularly family life, will not
17 deteriorate as a result of these changes. On the
18 contrary, we strongly believe that the changes which we
19 envision here will enrich Canadian life on all fronts.
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APPENDIX 2

RECOMMENDATION 2: a) That sub-section (2), (3) and (4) of Section 21 of the INCOME TAX ACT be repealed on the ground that they work unfair and unjustifiable hardship on spouses who conduct a partnership or a joint, unincorporated business.

1. These sub-sections read as follows:-

- (2) Where a person has received remuneration as an employee of his spouse, the amount thereof shall not be deducted in computing the spouse's income and shall not be included in computing the employee's income.
- (3) Where, in a taxation year, a person has received remuneration as the employee of a partnership in which his spouse was a partner the proportion of the remuneration that the spouse's interest in the partnership business was of the interest of all the partners shall be deemed to have been received by the spouse as part of the income from the business for the year and not to have been received by the employee.
- (4) Where a husband and wife were partners in a business, the income of one spouse from the business for a taxation year may, in the discretion of the Minister, be deemed to belong to the other spouse.

2. The consequences of the sub-sections quoted can be avoided if the business is incorporated. This means that the Act discriminates against small business



1 men and women. It places a penalty on individual
2 initiative and private enterprise where that enterprise
3 is on a modest scale. There are many small businesses
4 in Canada, which, when operated as family affairs are
5 moderately successful - the small retail store, agency
6 bureau, and service operation such as hairdressing,
7 laundering, cleaning, repair work. They are examples of
8 independent initiative in the creation of commerce and
9 business which merit encouragement, but which suffer an
10 economic disadvantage and hence are actively discouraged
11 from operation by the present legislation.

12 3. Since professional partnerships may not be
13 incorporated the husband and wife operating a medical,
14 legal or other professional firm have no remedy against
15 this tax inequity.

16 4. The social injustice shows up clearly in
17 these sub-sections which deny individual identity to
18 the man or woman working with the spouse although not if
19 working with someone else's spouse.

20 5. The 'discretionary' provision of sub-section
21 (4) is highly objectionable and appears to be a relic
22 of the bad old days of numerous ministerial discretionary
23 provisions, most of which have been dropped long since.
24 We believe that the taxpayer should be entitled to
25 establish before the courts that his husband-and-wife
26 partnership is a bona fide one with truly separate income
27 for each partner.

28 (b) THAT the federal Income Tax Act be amended to provide
29 that where the service is actually performed and
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1 the compensation does not exceed what would be
2 reasonable in the circumstances if the employer
3 and spouse had been dealing at arm's length. The
4 remuneration received by the employee spouse be
5 a deductible expense of the employer spouse in the
6 conduct of the business and be treated as separate
7 income in the hands of the employee spouse.

8 6. For no reason other than the marital
9 relationship, income generated by proprietorship and
10 partnership business is being subjected to unfair and
11 unequal taxation whenever married couples work together
12 therein as employer and employee. Under this
13 recommendation such businesses will be on an equal
14 footing with those where owners and employees are
15 "strangers" (unrelated), or are related by some other
16 tie than the marital one, e.g. - the parent-child
17 relationship. As in these, the wages or salary of the
18 employee spouse can be charged as a proper expense of
19 doing business. The individual initiative and enterprise
20 of the married couples promoting a family business is no
21 longer penalized.

22 7. As regards the remuneration paid, there are
23 provisions which prevent excessive payment of salary by
24 a husband to his wife, and vice versa.

25 8. It has been said that the Act has remained
26 unamended in this respect all these years because the
27 Income Tax Assessor might find it troublesome to establish
28 that services commensurate with the remuneration received
29 have actually been performed by the employee spouse.
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1 This appears an inconsequential evasion of the issue.
2 Moreover, the continuance of an unfair and unjust
3 discrimination merely for administrative convenience
4 smacks of bureaucracy.
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APPENDIX 3

RECOMMENDATION 3: THAT sub-section (1) of Section 26 of the Income Tax Act be amended to provide an additional exemption of \$500 to the taxpayer on behalf of the dependant where both taxpayer and dependant are 65 years of age or over.

1. Exemptions from income permitted the taxpayer are given in sub-section (1) of Section 26 which reads as follows:-

(1) For the purpose of computing the taxable income of an individual for a taxation year, there may be deducted from his income for the year such of the following amounts as are applicable:-

(a) \$2,000 in the case of a taxpayer who, during the year, was

(i) a married person who supported his spouse,

(ii) a person who had a child wholly dependant upon him for support, if the child was, during the year

(A) under 21 years of age

(b) 21 years of age or over and dependent by reason of mental or physical infirmity, or

(c) 21 years of age or over and in full-time attendance at a school or university

(iii) an unmarried person or a married person not supporting his spouse who maintained a self-contained domestic establishment and actually supported therein a person wholly dependent upon him and connected with him



1 by blood relationship, marriage or adoption, or

2 (iv) an unmarried minister or clergyman in
3 charge of a diocese, parish or congregation who maintained
4 a self-contained domestic establishment and employed
5 therein a full-time servant.

6 (b) NOT RELEVANT

7 (c) NOT RELEVANT

8 (d) NOT RELEVANT

9 (e) \$500 in the case of a taxpayer who has attained
10 the age of 65 years before the end of the year.

11 2. Paragraph (e) provides an additional
12 exemption for the taxpayer of 65 years of age and older
13 in recognition of the fact that after 65 years of age
14 he is likely to have retired from active employment, his
15 income probably is smaller and his expenses in connection
16 with maintaining his health, activity and well-being are
17 probably larger.

18 3. Where both the taxpayer and the dependant
19 are elderly their expenses connected with illness, and
20 for attendants needed for nursing and housekeeping
21 service may well increase steeply. Moreover, any rise in
22 the cost of living may greatly affect them, as, for the
23 majority of such couples, the income is fixed and is
24 related to values established in earlier years on the
25 basis of lower living costs.

26 4. Our recommendation is directed toward
27 alleviating this hardship for couples, related by blood
28 or marriage, both of whom are elderly, who have established
29 a home together which, in the face of the rising costs
30 that come with age, they find difficult to maintain.



APPENDIX 4

RECOMMENDATION 4: THAT sub-section (1) of Section 26 of the Income Tax Act be amended to provide an additional exemption of \$1000 for working women for housekeeping services, similar to that now permitted to the unmarried clergyman and minister.

1. Many working women have domestic responsibilities for the care of the incapacitated, the very elderly and the very young which require them to procure paid help at home in order that they themselves may take gainful employment. Our recommendation seeks to extend to them the same exemption from income of \$1000 for a full-time housekeeper that the Act has provided for many years for the unmarried minister and clergyman in charge of a diocese, parish or congregation, who maintains a dwelling and employs therein a full-time servant.

2. While this recommendation is prompted by hardship of our own membership, there is good argument for extending it to all tax payers.

3. For the single, divorced, separated or widowed taxpayer who supports a wholly dependent "child", the present Act provides an exemption of an additional \$1000 from income and where that "child" is maintained in dwelling wherein a full-time servant is employed, the taxpayer may claim an additional \$300 or \$550 exemption. This \$300 or \$550 exemption appears as a relief granted this certain taxpayer ("unmarried" with dependent, and maintaining a dwelling with a full-time servant)



1 regardless of his or her financial condition. There
2 appears to be no justification for setting the exemption
3 for this taxpayer with respect to the housekeeper at
4 from \$700 to \$450 less than that of the unmarried
5 minister or clergyman to whom the housekeeping exemption
6 is granted regardless of his financial state.

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8 4. Our recommendation, moreover, proposes
9 extension of this \$1000 exemption for housekeeping
10 services to a wider group. It is a realistic acceptance
11 of the marked change in employment practices in Canada
12 where an ever-growing proportion of the female population
13 is entering the labour force. In 1941, one-fifth of
14 all adult women were gainfully employed here. Today the
15 figure is approaching one-third. In 1941, less than 5%
16 of married women were gainfully employed. Today over
17 20% are employed. Compared to other industrialized
18 countries, particularly the United States of America,
19 these percentages are low. We can expect them to
20 increase in years to come. These are facts of social
21 and economic change which the present act does not
22 recognize.

23 5. While our recommendation is directed
24 primarily toward relieving a taxation hardship and
25 equalizing a taxation advantage, we nevertheless invite
26 the Commission's attention to its aspect as an economic
27 incentive to women to take paid employment. One again,
28 as in earlier portions of this submission, we express
29 our belief in the benefits that the economy of a nation
30 of small population and limited industrial development
may derive from increasing the proportion of the working



1 population, and thereby raising the national
2 productivity and the general purchasing power while at
3 the same time spreading the taxation burden among a
4 greater number of individual taxpayers.

5 6. We consider that the extension of this
6 tax advantage to working women and also to other taxpayers
7 - will provide an incentive toward higher employment
8 both directly and indirectly. Many active, able women
9 who are now housebound because of the need for physical
10 care of the incapacitated, the very elderly or the very
11 young for whom they are responsible, could engage in
12 paid work outside, and use paid help at home. Furthermore,
13 when both spouses can take outside employment, this
14 extension would free the services of many a woman with
15 training - the nurse, social worker, technician,
16 accountant, librarian, bookkeeper, doctor, scientist,
17 engineer, lawyer and the like, whose ability and talent
18 would once more be available to the community.
19 Housekeeping jobs would increase both in number and in
20 status. Housemaking generally would benefit.

21 7. In considering the situation where one
22 spouse is employed outside and the other is not, we
23 invite the attention of the Commission to the income tax
24 deduction for domestic help granted the taxpayer in the
25 United States of America, which some experts view as an
26 economic incentive to employment in the field of domestic
27 service.



APPENDIX 5

RECOMMENDATION 5: THAT sub-section (2) of Section 26 of the Income Tax Act be amended to permit the dependent spouse to earn up to \$950 annually without reduction of the marital exemption of the taxpayer spouse.

1. This sub-section reads as follows:-

(2) Where a married person supported his spouse during a taxation year and the spouse

(a) has income for the year while married exceeding \$250 and not exceeding \$1250 the deduction of \$2000 allowed to the married person....shall be reduced by the amount by which the spouse's income exceeds \$250. or

(b) has income for the year while married exceeding \$1250, each spouse is entitled to a deduction. (of \$1000)

2. The effect of this sub-section is to require a dollar-for-dollar reduction of the taxpayer spouse's \$2000 exemption after the income of the dependent spouse exceeds \$250 and until it reaches \$1250.

3. Other sections of the Act and its Regulations provide that dependants other than the spouse whom the taxpayer supports in a self contained establishment may earn up to \$950 without reducing the taxpayer's marital or equivalent exemption of \$2000.

4. This difference of \$700 in the taxpayer's exemption depends solely on whether the dependant is or is not the taxpayer's spouse. It is difficult to understand why the Act thus favours the taxpayer whose



1 dependant is adopted, is a blood relative or a relative
2 by marriage, and discriminates against the taxpayer
3 whose dependant is the spouse from whom he or she is
4 not separated or divorced. We submit that this is
5 unjustifiable discrimination against married couples
6 both of whom work at paid jobs, and the families of such
7 couples.

8 5. In Canada the number of families in which
9 both husband and wife engage in paid employment outside
10 the home, while still in the minority, has increased
11 greatly since 1946. Moreover, the majority of families
12 in which both work, apparently belong to the urban,
13 low-income group, and the two incomes are necessary
14 if the total income is to approximate that of the
15 average Canadian family. One would expect such families
16 to be the object of tax relief, rather than tax hardship.
17 Yet it is against them that Section 26(2)(a) discriminates
18 with hardship.

19 6. An effect of the subsection is to discourage
20 one spouse from engaging in paid employment. It is worth
21 commenting here that since most young people of both
22 sexes work nowadays, there is an increasing likelihood
23 that after marriage both will seek to continue in
24 employment. Even for the woman who gives up her job to
25 raise and care for a family, there are many years
26 remaining for outside employment after the family is
27 grown.

28 7. We believe that in a country of small
29 population and limited industrial development, the
30 national economy can ill-afford the loss entailed in



1 productivity and purchasing power by the exclusion,
2 abstention or permanent withdrawal from the labour force
3 of a large proportion of its potential workers; that
4 such a country can ill-support the heavier burden of
5 maintenance that such exclusion, abstention or permanent
6 withdrawal thrusts on the limited working population;
7 and that thereby an unnecessarily small working
8 population is called upon to bear an unnecessarily
9 heavy burden of taxation. In our opinion, it is in
10 Canada's interest that the majority of citizens take
11 paid employment. This is particularly true of those who
12 have acquired some special skill or training. We consider
13 that legislation which actively discourages the taking
14 of employment is not in the public good.

15 8. The disadvantages of the sub-section, as
16 well as its unfairness, operate both in times of general
17 employment and general unemployment. From the statistics
18 of Reference 1, it appears that the majority of the
19 working wives interviewed were employed full time, and
20 chiefly as clerical workers, factory workers and service
21 employees - in that order. They were not employed in
22 jobs for which men usually compete, despite popular
23 pronouncements to this effect. The jobs they were doing,
24 however, were essential to the economy, and, furthermore,
25 helped to maintain the general purchasing power. In this
26 connection, it is interesting to note that some experts
27 maintain that many home markets - notably those for
28 housing and for consumer durables, depend in no small part
29 upon the earnings of women, chiefly married women.
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1 Ref. 1 - Survey of Married Women Working for Pay in Eight
2 Canadian Cities, January 1958, Department
3 of Labour, Ottawa.
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APPENDIX 6

RECOMMENDATION 6: THAT Paragraph (c), sub-section (1) of Section 27 of the Income Tax Act be amended to provide that the total amount of allowable medical expenses of the taxpayer and his dependants be an exemption from income, in lieu of the present provision whereby only that portion of medical expenses in excess of 3% of the tax payer's income may be deducted.

1. For good national health, it would appear good practice to encourage not only prompt diagnosis and treatment of disease and therapeutic measures to combat known ailments and disabilities but also "preventive medicine" to promote continued well-being. The effect of the present provision is to discourage all this, however.

2. Furthermore, the hardship experienced may be greater than is immediately apparent. Not all medical expenses are "allowable expenses" - e.g. the costs of therapeutic treatment and of special training for handicapped people. Also, taxpayers are not permitted to deduct their contributions to provincial (and other) hospital insurance plans, nor may they deduct medical expenses paid on their behalf under such plans.

3. The view that medical expenses under 3% of the taxpayer's income are normal, and are properly considered a part of living expenses, is not realistic. For the lower income group in particular, the incidence of illness with the reduced income which may accompany it, can be a heavy economic burden which the removal of the 3% bar, slight though it be, could relieve.



1 4. The value of "preventive medicine" is now
2 being recognized as providing long-range benefits to the
3 public, as well as to the individual immediately concerned.
4 People tend to neglect seemingly minor ailments, in some
5 instances, perhaps because they do not consider they
6 can afford the outlay of money needed, though they might
7 think differently if the sums were to receive full tax
8 exemption. Such ailments may develop into major
9 disabilities, entailing periods of hospitalization,
10 recuperation or rehabilitation and thereby occasioning
11 not only individual loss and hardship but also loss of
12 productive labour with effects detrimental to the
13 nation's economy.

14 5. The amendment we recommend would support
15 and be in line with the greater emphasis being placed
16 today on general health and physical fitness as a
17 national asset.
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APPENDIX 7

RECOMMENDATION 7: THAT sub-section (3) of Section 47 of the Estate Tax Act be amended to provide that the value of any property passing on a death, which may be paid out without the consent of the Minister, be increased from the present amount of \$1500 to \$2500 in the case of any one transferor, deliverer or payer.

1. The purpose of this amendment is to make better provision for necessities for the beneficiaries while the estate is being settled, by freeing a greater amount of ready cash \$1500 is a small sum which may not meet the immediate bills and living expenses, with consequent hardship for the beneficiaries.

2. The sub-section deals with release of money on deposit, money payable as wages, salaries, commissions or fees or held in trust for the deceased. This may be the only source of ready cash for the beneficiaries, for many people have only one deposit account and the estate may not include any insurance policy, superannuation, pension, annuity or similar death benefit for which sub-section (1) of the Section 47 provides release of funds. The one deposit may be the only source of payment for the outstanding debts of the deceased, including terminal expenses of hospital, doctor, nurse and funeral as well as the continuing living expenses of the beneficiaries.

3. The revenue of the government would not suffer from this amendment, for notice of the payment



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1 has in each instance to be given to the Minister, and
2 the amounts themselves are still considered part of
3 the estate and subject to estate tax.
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APPENDIX 8

RECOMMENDATION 8: THAT no estate tax be levied on values which do not actually come into being for the widow.

1. While this recommendation was directed specifically toward the widow, it is generally applicable to either of the surviving spouses and to other recipients as well.

2. The practice under the Estate Tax Act is to value pensions, annuities, etc. arbitrarily on the basis of the life expectancy of the recipient as set out in an actuarial table. The capitalized value of the pension, annuity, etc. is added to the estate, tax is levied, and payment is required within six months of death.

3. If the recipient fails to live out that life expectancy, or if, in the case of a widow to whom the pension, annuity, etc. is payable only until she remarries, she does remarry before she lives out the anticipated life expectancy, a hardship has been imposed in that the recipient is required to pay estate tax on the capitalized value of the pension, etc. before amounts are received with which to pay the tax, and on a total sum at least part of which the recipient did not ultimately receive.

4. Section 15A of the Estate Tax Act, introduced in 1960, provided relief for the estate but not for the recipient should the "terminal event" (i.e. death or remarriage) occur within four years. In



1 In such an event the tax already levied will be
2 reassessed on the basis of the actual period during which
3 the pension, etc. was received, and the excess tax that
4 has been paid will then be refunded to the estate.
5 However, the widow may have been deprived of the sum for
6 the duration of her widowhood, and she will receive no
7 personal benefit whatsoever from this refund. The
8 situation of the recipient other than the widow i.e.
9 children, other relatives and strangers, is similar.
10 The youthful recipient is a particular case in point.
11 Furthermore, if four years elapses before the terminal
12 event takes place, not even the estate is recompensed.

13 5. In all instances involving pensions,
14 annuities etc., including those rare cases falling
15 within the provisions of Section 15(1)(a) which permit
16 payment by instalment, some consideration might be given
17 to continuing to include the pension, annuity etc. in
18 the valuation of the estate for the purpose of
19 determining only the rate of tax, with tax being imposed
20 as payments are actually received. Even this, however,
21 could result in an excessive rate of tax - as in the
22 case of the premature death of a youthful recipient.

23 6. However, viewed from the standpoint of
24 changing attitudes, we here again invite the attention
25 of the Commission to the need for establishing a whole
26 new set of values in considering the "family" estate.
27 Recognition of the services of the wife to the marriage
28 partnership suggests that a system whereby no estate
29 tax is paid until after the death of both spouses be
30



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31.

1 considered; or that only half the estate be subject to
2 taxation on the death of a spouse; or that, as in the
3 United States of America, the estate of either spouse
4 be reduced up to fifty per cent by the value of assets
5 left to the surviving spouse.

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9 EGM/712

10 March 25, 1963
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SUBMISSION

OF

HENRY ROSENBERG, Q.C.

A. An Amendment to Section 18 of the Income Tax Act:

1. At the present time, the working of Section 18 permits conclusions that may not have been intended when the Section was originally enacted, and the Section can be clarified by a very simple amendment.

2. At the present time we have had one case on this Section heard by the Income Tax Appeal Board. Judgment has been reserved. Pending that decision, there are several dozen other cases in this office alone that are in appeal.

3. Basically, the Section was enacted to prevent persons from purchasing capital assets, and from charging the cost thereof over a shorter period than they would be able to by normal depreciation under the Statute. For example, if Mr. A. wanted to purchase a property for \$100,000 and made the purchase and paid the money, he would be able to depreciate only a maximum of 5% of \$100,000 on decreasing balance, and none of the \$100,000 could be charged as an expense. He would, therefore, put out \$100,000, get credit for depreciation the first year of \$5,000, and every year after that of less.

If, instead of that, he leased the property for \$33,333.00 per year for three years, and had an option to buy the property at the end of three years



1 for \$1.00, he would then be able to charge his rent as
2 an expense, and in that way have the total cost of the
3 property charged off in three years.

4 The section was enacted in an attempt to avoid
5 this. The Section says that if such a thing took place,
6 the rent could not be charged as an expense, but the
7 tenant, because he had an option to buy, would be deemed
8 to have purchased the property for the total of the rent
9 and the option price, namely, \$100,000, and he would be
10 entitled to depreciation on that.

11 If the same man leased the property for a 99
12 year period at \$10,000 per year rent, and had an option
13 to buy the property at the end of the period for one
14 dollar, then under the Section he is deemed to have paid
15 99 times \$10,000, plus \$1.00, or \$990,001.00. The first
16 year he could then not charge his \$10,000 rent as an
17 expense, but he could charge a depreciation on \$990,001.
18 (less a reasonable value of the land) which would be
19 approximately \$45,000. It means then that the deprecia-
20 tion would be in excess of the rent payable by \$35,000.

21 This situation could be easily overcome,
22 and difficulty avoided if a subsection were added to
23 Section 18 that read as follows:
24 "Notwithstanding anything contained in this Section,
25 the amount of depreciation that may be charged to income
26 by the deemed purchaser in respect of the property in
27 any one year shall not exceed the annual amount payable
28 in that year under the higher purchase agreement.

29 If such an enactment were enacted, then the
30 maximum depreciation that could be taken in the case



1 above recited would be \$10,000, which is equal to the
2 amount that could be charged for rent anyway, the
3 Treasury would not suffer.

4 B. Capital Gains Tax

5 1. Capital gains tax would help the taxpayer,
6 in that the situation could be clarified, and many cases
7 now before the Courts would be avoided. Such a tax
8 would also bring a substantial revenue to the Treasury,
9 and enable the Government to reduce the rate of taxation.

10 2. A capital gains tax, if the rate is low,
11 such as in the United States where it is 25%, would
12 enable individuals and corporations to build up capital
13 assets on sale of property, of stocks, of bonds, on
14 reorganization of companies. 25% could be paid to the
15 Treasury and the other 75% retained as capital.

16 3. Another way that might be more equitable
17 and avoid any disputes about what are capital transac-
18 tions might be a sliding scale, depending on the number
19 of years that an asset has been held.

20 4. To work this out, there would have to be
21 a Statute that would provide:

22 (a) definition as to what is a capital gain.

23 (b) a sliding scale of taxation to determine
24 how much of the gain is taxable after what
25 period;

26 (c) there would have to be provision for the
27 taxation only of the net gain less any loss
28 that might have taken place in the same
29 year on a capital transaction;

30 (d) each capital asset would have to be kept



- 1 separately;
- 2 (e) the capital gains tax would have to be
- 3 based on a cash basis only, namely,
- 4 taxation to take place only when the cash
- 5 has been received from the sale.
- 6 (i) What should be taxable? The cash realized from
- 7 the sale of the capital asset in excess of the book value
- 8 thereof at the time of sale.
- 9 (ii) The book value should be defined as being the
- 10 actual cost of the asset, less the accumulated deprecia-
- 11 tion shown for tax purposes between the time of the
- 12 purchase and the time of the sale.
- 13 (iii) Capital assets for the purpose of this sale
- 14 should include real estate, mortgages, stocks, bonds,
- 15 debentures, plant, machinery, equipment, furniture
- 16 (except if the person who makes the sale is a dealer in
- 17 these commodities), a business as a going concern, or
- 18 any share thereof.
- 19 (iv) A capital loss should be the difference
- 20 between the cost, less accumulated depreciation of a
- 21 capital asset, and the sale price received therefor in
- 22 cash in an arm's length transaction.
- 23 (v) If more than one asset is sold, one should
- 24 take the total cost of the assets sold, less depreciation,
- 25 and the total cash received on the sale thereof.
- 26 (vi) If the asset is sold within one year after
- 27 the asset is acquired, then that sale shall not be
- 28 considered a capital sale, and the income, if any,
- 29 derived from that sale shall be treated as ordinary
- 30 income to the Vendor.



(vii) If the capital asset that is sold has been kept by the Vendor for more than one year, then the tax could be either 25% on the cash profit realized, or it could be on a sliding scale as follows:

(a) If the asset has been kept for 10 years before it is disposed of, no tax.

(b) If the asset has been kept for 5 years or longer before it is disposed of, then half the cash profit should be included in the income of the Vendor; that is, if \$1,000 is the difference between the cost and the selling price, \$500. of it should be added to the regular income and taxed at the regular rates.

(vii) (c) Between one year and 5 years, there could be a sliding scale. There could even be a sliding scale between five years and ten years.

5. To protect the Treasury, there could be an enactment that capital losses could be deducted from capital profits only, and not from other income.



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BRIEF

TO

ROYAL COMMISSION ON TAXATION

SUBMITTED BY

UNITED ELECTRICAL, RADIO AND MACHINE WORKERS OF AMERICA

March 29, 1963



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29	and Depletion	
30		



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2 (a) Family of four, man only earning total income

3 (b) Family of four, man working full time, woman

4 working half time earning 40 per cent of

5 husband's income

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SUMMARY

Para. 1 - 4

UE recognizes governments' need for increasing revenues to meet growing responsibilities to people. Municipal governments have placed increasing burden of taxes on home owners. Provincial governments have resorted to indirect taxes bearing heavily on consumption of lower income families. Division of revenues between governments needs adjustment in line with governments' responsibilities today. Relief from burdens of taxes on workers' families is needed to stimulate consumer demand and employment opportunities. All Taxes are ultimately paid by people. The tax incidence must accord with ability to pay.

Para. 5 - 7

Breakdown of expenditures per taxpayer's dollar points to need for readjustment of governments' spending policies. Largest present item is military. Large debt charges offset half the redistribution of income from social security.

Para. 8 - 10

In total, Canada has lower taxes than most industrially developed countries. Hence relative weight of taxes is not hampering economic activity. It is rather incidence of the tax burden, which is mostly borne by workers of hand and brain thus curtailing effective demand.



1 Para. 11 - 18

2 Typical family budgets for an average electrical
3 worker with wife and two children are based on total income
4 (including children's allowances) of \$4,154 in 1961 if
5 the man alone works, and \$5,749 if the woman also works
6 half time. The resulting expenditure patterns are
7 realistic only when there is more than one income. The
8 tax content of these family expenditures is \$1,117 or 26.8
9 per cent of total income with the man alone working,
10 \$1,688 or 29.4 per cent of total income with the woman
11 also working half time. Statutory levies for unemployment
12 insurance and Ontario hospital service are not included
13 in these tax totals.

14

15 Para. 19 - 24

16 In terms of a day's work, it takes the man
17 alone working 2 hours 14 minutes to cover the day's taxes.
18 If the woman also works half time, it takes 1 hour 26
19 minutes for her to earn the additional taxes on the family
20 expenditures her earnings make possible. Out of the
21 \$4.23 a day going for taxes with the man alone working,
22 he pays for 66 cents worth of government administration and
23 debt charges, 78 cents worth of military expenditures,
24 \$1.13 worth of education and other government services,
25 66 cents worth of social security, \$1.00 worth of highways
26 and other economic developments. For the individual
27 worker, it would be better to have less spent on debt
28 service and military affairs, more on social security
29 especially for old people, and considerably more for
30 economic development especially job-creating enterprises.



1 For the economy as a whole, the income redistribution
2 through social security is smaller than it appears. A
3 progressive shift of the tax burden to those whose wealth
4 is not accumulated from earned income would undoubtedly
5 stimulate consumer demand.

6
7 Para. 25 - 27

8 Pyramiding of tax upon tax, since it involves
9 taxes on consumption, increases the regressiveness of the
10 tax system generally. Example: tax pyramiding on a radio
11 tube adds 70 per cent to the original cost. To avoid
12 such tax pyramiding retail sales taxes should be elimin-
13 ated and any sales and excise taxes at manufacturer's level
14 shifted to a value added basis.

15
16 Para. 28 - 35

17 The Canadian tax structure is highly discrimin-
18 atory as it applies to workers compared to executives
19 and owners of businesses which hire them. The first
20 major element of discrimination is the proportionately
21 heavier tax burden on middle and low income families,
22 whose incomes are entirely earned, arising from the
23 majority of taxes which bear directly on consumption.
24 For the many families which have to go into debt to buy
25 consumer durables this relative tax over-burden is in-
26 creased. Property taxes also discriminate against the
27 working man.

28
29 Para. 36 - 46

30 A second element of discrimination arises from



1 the widespread tax evasion by businessmen through "expense
2 accounts" or "corporate living". The worker, on the other
3 hand, must meet all his expenditures with his own tax-paid
4 dollars, and in all of these are imbedded further in-
5 escapable taxes. The amount of imputed income involved in
6 "corporate living" is estimated to be \$500 million a year
7 on which taxes could amount to \$125 millions. Other
8 elements of tax discrimination in favour of executives
9 involve big pension fund contributions, retirement allow-
10 ances and stock purchase options.

11

12 Para. 47 - 71

13 A third, and most important, form of discrimina-
14 tion in favour of owners arises from tax exemption for
15 capital gains and from use of the corporation to shield
16 wealth from taxation while still allowing the owner to
17 benefit from the resulting increase in his economic power.
18 Example: market appreciation of Canadian General Electric
19 stock was 221 per cent over past ten years. Example:
20 rights to purchase additional Bell Telephone stock last
21 October provided capital gain of \$18 millions. Example:
22 short circuiting of profit flow and pyramiding of owners'
23 investment without taxation through excessive depreciation
24 and depletion allowances. Examples: corporations for the
25 purpose of accumulating profits in tax havens outside
26 Canada, such as Sanford Trading Ltd., a Jamaican company
27 owned by Canadian Westinghouse Co. Ltd.,

28

29 Para. 72 - 73

30

The 20 per cent dividend tax credit has no basis



1 in theory when the corporation tax is shifted forward in
2 prices. It should be abolished, with a consequent revenue
3 gain of \$63 millions.

4
5 Para. 74 - 75

6 Out of \$1,161 millions distributed as dividends
7 in Canada in 1960, only \$315 millions were reported as
8 received by persons and so taxes -- an indication of the
9 corporate shielding of wealthy persons from taxes.

10
11 Para. 76

12 Comments on tax shields from evidence of British
13 Royal Commission on Taxation substantiate line of above
14 arguments and examples.

15
16 Para. 77 - 78

17 Complete change of tax policy must be directed
18 towards eliminating regressive tax-pyramiding retail sales
19 taxes; reducing number and rates of all other indirect
20 taxes; exempting average worker's family from income tax;
21 increasing personal tax collections levied on all kinds
22 of wealth accumulations; controlling government expen-
23 ditures so as to produce most benefit for greatest number
24 of Canadians.

25 Immediate proposals:

26
27 Para. 79

28 Reduce retail sales tax to maximum 2 per cent.
29
30



1 Para. 80 - 82

2 Eliminate federal taxes under Parts IV and V of
3 the Excise Tax Act.

4
5 Para. 83

6 Accept the family as fundamental tax base unit.

7
8 Para. 84 - 85

9 Establish basic untaxed income level of \$2,500
10 for single-person and \$6,000 for multiple-person families.

11
12 Para. 86 - 89

13 Revise income tax rate progression, starting
14 with 5 per cent rate on first \$1,000 of taxable income,
15 rising to 80 per cent on taxable incomes above \$94,000.
16 These rates would substantially lower taxes on family
17 incomes below \$10,000, result in little change on incomes
18 from \$10,000 to \$13,000, and increase taxes on incomes
19 above \$13,000.

20
21 Para. 90 - 91

22 Proposed tax relief for workers' families would
23 add about \$975 millions to consumer expenditures (4 per
24 cent increase over 1961 level) creating some 130,000
25 additional jobs.

26
27 Para. 92 - 94

28 Artificial distinction between capital accumula-
29 tion and income for tax purposes causes economic waste in
30 efforts to minimize tax and in administration of tax



1 structure with gigantic built-in loophole. Arguments for
2 all-inclusive concept of income are found in Memorandum of
3 Dissent to the Report of the British Royal Commission on
4 Taxation. Owners should not be able to escape taxation by
5 covering major parts of their expenditures out of corpor-
6 ation funds, or by accumulating wealth inside the corpor-
7 ate shield, or by capital appreciation in their own hands.

8 Specific proposals:

9

10 Para. 95

11 Require business to report all remuneration and
12 perquisites to employees and owners and to deduct income
13 tax at appropriate personal rates on this total remunera-
14 tion.

15

16 Para. 96 - 97

17 Require corporations to include realized capital
18 gains in income. Report proportion of corporate after-tax
19 profit distributed as dividends and withhold 15 per cent
20 tax on both distributed and undistributed profit.

21

22 Para. 98

23 Disallow excessive depreciation and depletion
24 deductions above average of 5 per cent of cost, assuming
25 longer life for buildings, shorter for machinery.

26

27 Para. 99

28 Require individuals to include realized capital
29 gains as income for tax purposes.

30



1 Para. 100

2	Revenue effects of tax proposals: reduce re-		
3	venue as result of --		
4	-- retail sales tax reduction	\$200 millions	
5	-- elimination of federal excise taxes	250	"
6		\$450	"
7	recouped by cut in military expenditures	450	"
8	-- standard exemptions of \$2,500 for single		
9	persons	\$276	
10	and \$6,000 for families	<u>711</u>	987 "
11	-- Less gain from skewing of income tax		
12	rate progression	<u>85</u>	"
13	total lost revenue	<u>\$902</u>	"
14	increased revenue as result of --		
15	-- eliminating "corporate living" evasions	\$125	"
16	-- eliminating dividend tax credit	63	"
17	-- taxing undistributed profits	259	"
18	--- taxing hidden profit in excessive		
19	depreciation		
20	as corporate profit	\$415	
21	as undistributed profit		
22	accruing to individuals	<u>104</u>	<u>\$519</u> "
23	-- taxing of realized capital gains	<u>?</u>	"
24	total gained revenue	<u>\$966+</u>	"

26 Para. 101

27 Revenue from taxing realized capital gains (not
28 included above) will make it possible to increase govern-
29 ment expenditures somewhat and to proceed with progressive
30 reduction of remaining indirect taxes.



1 Para. 102 - 103

2 Rebuttal to charge that such a system of taxation
3 would destroy savings necessary for investment:

4 (1) This historical argument against every pro-
5 gressive tax increase has always proved
6 wrong in practice.

7 (2) Opportunity for some extension of individual
8 economic power through accumulation will
9 always assure private saving and investment.

10 (3) Should private investment not meet national
11 needs, government can always channel part
12 of community savings in desired direction.

13 (4) Reduction of taxes bearing on consumption
14 can be a most important stimulant to in-
15 vestment.

16
17 Para. 104 - 107

18 Tax incentives to business are ineffective to
19 stimulate needed manufacturing expansion in Canada.
20 Somebody has to make up revenue loss of incentive, probably
21 consumers; thus the impact of the "cost" defeats the
22 purpose of the "incentive" by reducing aggregate demand.
23 The only effective enticement to industry to expand is
24 the prospect of increased demand. Specifically in the
25 area of increased Canadian production of imported parts
26 and products, because of the high degree of foreign
27 control the main decisions are now based on many consider-
28 ations affecting the U.S. parent company's world profit
29 position quite extraneous to Canadian tax or depreciation
30 policy. Much higher (and less costly) results can be



1 obtained from direct attack on such problems.

3 BRIEF TO ROYAL COMMISSION ON TAXATION

4 I INTRODUCTION

6 1. The United Electrical, Radio and Machine Workers
7 of America (hereinafter referred to as UE) represents
8 some 20,000 production workers in industries basic to a
9 modern, industrialized country. Our approach to taxation
10 is that of its burden and benefit to an average industrial
11 worker's family -- thus to the economic foundation of the
12 nation. We believe, therefore, that the views expressed
13 herein would receive the support of a large section of the
14 Canadian people.

15 2. We recognize the need of governments today for
16 large and increasing revenues to meet their growing
17 responsibilities to the people. These responsibilities
18 cover the things that individuals cannot do well for them-
19 selves. They include: the public administrative functions
20 of society, the provision of public services, the distri-
21 bution of basic social security, the promotion of economic
22 development and growth. In the main, the first three kinds
23 of activity are properly financed out of current revenues
24 and the fourth out of borrowing.

25 3. Over the years, the growing responsibilities of
26 the different levels of government have not been matched
27 by appropriate increases in the revenue sources available
28 to each level. The mounting needs for and costs of
29 education, urban services, etc., have driven municipal
30 governments to place an ever-increasing burden of taxes



1 on home owners. The costs of necessary expanded health
2 and hospital services have led provincial governments to
3 resort to sales and other indirect taxes bearing heavily
4 on the consumption of middle and lower income families.
5 The UE recognizes the very serious need to solve this
6 problem of division of revenues between governments, since
7 the present unsatisfactory situation bears particularly
8 heavily on workers' families. We are not pursuing this
9 important matter further in this Brief, in view of our
10 desire to concentrate entirely on what to us appears to
11 be the crucial questions -- how to reduce the burden of
12 taxation on workers and their families, so releasing the
13 brakes on effective demand for the economy as a whole to
14 expand employment opportunities; and how to obtain the
15 needed government revenues from sources of accumulation
16 better able to pay taxes. We do wish to express the
17 sincere hope, however, that the Commission will be
18 successful in arriving at a democratic and lasting solution
19 to the problem of gearing tax power to government
20 responsibilities in the kind of world we live in today.

21 4. At the risk of seeming to labour the obvious,
22 we believe it desirable to set out in summary form the
23 fundamental tax philosophy underlying this Brief, namely:

- 24 (a) the object of taxation is to raise the
25 revenue necessary for governments to carry
26 out their responsibilities to the people.
27 (b) All taxes are ultimately paid by people
28 and come out of the current production of
29 society
30 (c) the incidence of taxation must be in



1 accord with ability to pay

2 (d) a tax system should be simple, widely
3 understood and as economical to administer
4 as possible.

5 5. For the people who pay the taxes, it is equal-
6 ly as important that governments use their funds
7 effectively, as ~~that~~ they raise them equitably and
8 efficiently. We realize that this side of government
9 fiscal policy is not the direct concern of this Commiss-
10 ion, but we cannot develop our discussion of taxation
11 without a preliminary reference to what the taxpayers'
12 dollars are used for in Canada.

13 6. Below is a summary analysis of how the
14 taxpayer's dollar was spent in 1959 (latest statistics
15 available, for details see Appendix A, Table 1).
16 The figures apply to all levels of government consolida-
17 ted, with inter-government transfers eliminated.



BREAKDOWN OF TAXPAYER'S DOLLAR, 1959

Administrative Functions

general government	7.2 cents	
debt charges	<u>8.3</u>	15.5 cents

Provision of Services

military services and		
veterans pensions	18.6	
education	13.5	
hospital and other health		
services	7.2	
protection of persons and		
property	4.1	
sanitation and waste disposal	1.0	
employment service	<u>1.0</u>	45.4

Social Security

old age pensions	7.2	
family allowances	5.2	
unemployed benefits	1.0	
other	<u>2.1</u>	15.5

Economic Development

highways, roads and bridges	11.2	
other transportation and		
communication	3.1	
natural resources	5.2	
all other	<u>4.1</u>	<u>23.6</u>
		<u>100.0</u>



1 7. Although the total of government expenditures
2 has risen considerably since 1959, probably the distri-
3 bution has not changed greatly. Four points of economic
4 significance strike one immediately:

5 -- the largest single item is the military ex-
6 penditure of 18.6 cents out of every tax
7 dollar

8 -- the relatively large item of debt charges,
9 which route back to the more well-off an
10 amount exceeding half that of total social
11 security benefits distributed by governments

12 -- the relatively small unemployment costs
13 covered by taxation (i.e. not directly paid
14 for by employee and employer contributions)

15 -- the very heavy preponderance of highway
16 expenditures in the total spent for economic
17 developments.

18 We believe that such observations point to the
19 obvious need for some serious readjustment of government
20 spending policies even within the framework of the
21 present total of government spending.

22 8. In Canada, as in other countries, it is
23 frequently stated that taxes are higher than elsewhere
24 and therefore hampering economic activity. An objective
25 study of this question to determine the proportion of
26 total taxes (including compulsory social security contri-
27 butions) to gross national product in twenty countries
28 for 1958 gave the following results:
29
30



TAXES AS PROPORTION OF G.N.P.

West Germany	34%
Austria	33
Finland	32
Norway	32
France	32
Sweden	31
Luxemburg	30
Britain	29
Netherlands	28
Italy	28
United States	26
Denmark	24
<u>CANADA</u>	23
Ireland	23
Belgium	23
Australia	22
Japan	20
Greece	18
Portugal	18
Spain	16

(Source: "The Burden of Taxation: An International Comparison" in Economic Review, No. 14, March 1961, of National Institute of Economic and Social Research, London.)

9. The evidence is clear that Canada is not highly taxed in total, in relation to other industrially developed countries. Canada appears as thirteenth in this list of 20 countries indescending order of tax burden. Only Australia and Japan, among the major industrial countries,



show slightly lower tax burden rates. Even on the narrow comparative basis of maximum rates of personal income taxation, Canada (80%) ranks below United States (91%) and Britain (90%).

10. The UE wishes to establish clearly at the outset, that our point of departure for a discussion of taxation is our firm belief that the main burden of Canada's taxes is borne by workers of hand and brain, and that a reduction of this burden would be good for the Canadian economy.

This belief rests on these facts of major significance:

-- employees constitute 83 per cent of the total labour force; wages and salaries are equivalent to 78 per cent of total consumer expenditures; up to large salaries employees' earnings are almost wholly spent on consumption; the majority of taxes bear on consumption expenditures.

-- about half of the total income taxes is collected from taxpayers with incomes below \$6000.

-- under conditions of general relative over-capacity, shift of each \$1 million tax burden off workers (who will spend all additional purchasing power on increased consumption) will create about 133 jobs.

II INCIDENCE OF TAXES ON TYPICAL URBAN WORKER'S FAMILY

11. In the last of a series of articles on taxation in the Globe and Mail (20 April 1961), Ronald Anderson aptly described the daily contact with taxes in the life of John Jones, office worker --



1 "When Mr. Jones rises in the morning, he is
2 confronted with the tax component in his shaving
3 equipment as soon as he opens the bathroom door.
4 These taxes include the 11 per cent federal sales
5 tax, corporation income tax at various levels,
6 and municipal property taxes. There may also be
7 a tariff component lurking in some items.

8 "When he sits down to breakfast, he meets
9 the same taxes again in a different form. Most
10 foods are exempt from sales tax, but many, such
11 as coffee, tea, cocoa and margarine, carry the
12 full load.

13 "However, since Mr. Jones purchased these
14 goods the day before, he does not have to pay for
15 them -- or their tax content -- again today.
16 They, like the clothing and shoes he wears and
17 the house he lives in, serve only to remind him
18 that taxes are his constant companions.

19 "On his way to work, Mr. Jones stops at a
20 service station for gasoline. Here he meets all
21 his old friends -- the sales, corporation income
22 and property taxes -- plus one new one: the
23 provincial gasoline tax of 13 cents per gallon.

24 "Mr. Jones buys a package of cigarettes,
25 and again his old tax companions are with him,
26 this time accompanied by the excise tax. If
27 he were to buy a lighter as well, he would be
28 likely also to encounter the tariff.

29 "When Mr. Jones parks his car, part of the
30 money he pays to the attendant helps cover the



1 various business and property taxes levied
2 against the parking lot.

3 "Inside his office, Mr. Jones can tempor-
4 arily forget his tax burden. If it is payday,
5 though, he will receive a slip from the account-
6 ing office showing the amounts that have been
7 deducted from his cheque to cover income tax,
8 unemployment insurance and hospital insurance.

9 "When Mr. Jones goes out for his coffee
10 break or for lunch, he will again make his con-
11 tribution to taxes. If he buys a newspaper,
12 the pyramid of taxes will again appear, resting
13 this time on a tax on logging.

14 "Throughout the day, each time Mr. Jones
15 opens his wallet, he exposes himself to taxes.
16 Even when he sits inoffensively at his desk,
17 the tax liabilities continue piling up around
18 him.

19 "After working all day, Mr. Jones may
20 decide some relaxation is needed. He does not
21 drink, since he feels the taxes on beer and
22 liquor are too high for his pocketbook. Instead,
23 he invites his wife to a movie.

24 "Even at the movie, though, the corporation,
25 business and property taxes must be paid. And
26 when Mr. Jones pays for his tickets, 10 per cent
27 of the admission price is set aside for the
28 provincial government. This covers the tax on
29 amusements."

30 12. In order to work out explicitly the total tax



toll in a typical worker's family, we have taken the example of a wage earner in the electrical manufacturing industry living in Toronto in 1961. Our typical family consists of husband, wife, girl 8 and boy 13 years old. The family income is based on two assumptions: (a) that the man is fully employed for the whole year and he only works, earning the average wage for the electrical industry in 1961, and (b) that the man works full time and the woman also works half time earning the equivalent of 40 per cent of her husband's annual wage. The total family incomes under these assumptions, therefore, are:

(a) man working full time earns \$3,986 (1)

family allowances 168 (2)

total income \$4,154

(b) man working full time earns \$3,986

wife working half-time earns 1,595 (3)

family allowances 168

total income \$ 5,749

(1) D.B.S. Man-Hours and Hourly Earnings Reports.

\$76.66 per week x 52 = \$3,986. (Incidentally this is almost exactly the same as the average in 1961 for the electrical industry in Toronto as well.)

(2) Girl 8 = \$6 x 12; boy 13 = \$8 x 12 -- total \$168

(3) 40% of \$3,986 = \$1,595



1 13. On the basis of these incomes, we have construc-
2 ted the typical family expenditure patterns set out below,
3 and more fully explained in Appendix B. The principal
4 assumptions were:

5 -- that the family spent all its income, neither
6 saving nor going into debt during the year.

7 (This is obviously conservative for this income
8 level in recent years, as the details of expen-
9 diture show and D.B.S. sampling studies prove.)

10 -- that specific expenditures (actual for housing
11 in Toronto, calculated specifically for this
12 income family for unemployment insurance,
13 prepaid hospital and medical insurance, union
14 dues, etc.) were substituted for D.B.S. averages
15 when possible.

16 -- that the family could not own and operate a
17 car (without going deeply into debt) on husband's
18 income alone, but could with wife working half
19 time.

20 -- that otherwise D.B.S. 1957 averages for the
21 appropriate income level were up-dated and
22 expanded to cover specifics of typical family.
23
24
25
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28
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30



TYPICAL ELECTRICAL WORKER'S FAMILY

EXPENDITURE PATTERN, 1961

	Husband only		Wife also working	
	<u>earning</u>		<u>half-time</u>	
	<u>Amount</u>	<u>per cent</u>	<u>amount</u>	<u>per cent</u>
Food	\$1,100	27%	\$1,491	26%
Shelter	1,373	33	1,510	26
Clothing	388	9	512	9
Transportation	260	6	674	12
Medical and personal	277	7	329	6
Recreation and				
education	45	1	200	3
Smokes & drinks	200	5	221	4
Gifts and				
contributions	121	3	144	3
Security	180	4	204	3
Other	25	1	32	1
Income tax	<u>185</u>	<u>4</u>	<u>432</u>	<u>7</u>
Total	<u>\$4,154</u>	<u>100%</u>	<u>\$5,749</u>	<u>100%</u>

14. In seems perfectly obvious that the second budget, based on the wife also working, is the more realistic. In a city like Toronto today, it is just not possible for an average worker's family to live normally without going deeply into debt, or cutting necessary expenditures for food drastically, unless there is more than one income in the family. Comparison of our typical family budget with the D.B.S. 1957 adjusted averages, shown in Appendix B, will serve to confirm this conclusion. The summary results of the D.B.S. 1959 urban family



expenditure survey (details not yet published) shown below alongside our typical family budget with wife also earning, are a further illustration of the reasonableness of our expenditure pattern. The D.B.S. 1959 expenditures are averages of 1,672 families consisting of two or more persons in 60 urban centres, with family incomes ranging from \$2,500 to \$7,000. These 1959 expenditure have not been adjusted upward to 1961 prices.

COMPARISON OF TYPICAL FAMILY BUDGET ($1\frac{1}{2}$ INCOMES) 1961

with

D.B.S. AVERAGE FAMILY EXPENDITURES, 1959

		D.B.S. Average
	Our typical	Expenditures,
	<u>budget 1961</u>	<u>1959 (1)</u>
Food	\$1,491	\$1,323
Shelter	1,510	1,402
Clothing	512	508
Transportation	674	630
Medical and personal	329	355
Recreation and education	200	234
Smokes and drinks	221	230
Gifts and contributions	144	170
Security	204	271
Other	32	69
Income Tax	<u>432</u>	<u>378</u>
	<u>\$5,749</u>	<u>\$5,570</u>

(1) D.B.S. Daily Bulletin, 23 May 1962



15. The problem now is to disclose the incidence of all the indirect taxes on these typical family expenditure patterns. Details of the methods used to relate taxes to consumer expenditures are given in Appendix C. The results for our typical family budgets are set out below.

16. In the calculation of tax incidence an important assumption is that the whole of the corporate tax is passed on to the ultimate consumer in the prices paid for goods and services. This is so because of the quasi-monopolistic, price-administered, economic environment of today. We have cited a number of business and tax experts' opinions on this matter to substantiate our position on this question in Appendix D.

INCIDENCE OF ALL TAXES ON TYPICAL FAMILY, 1961

	(a) man only	(b) woman also
	<u>working</u>	<u>working half-time</u>
Income tax	\$ 185	\$ 432
Property taxes	290	290
Corporate tax	262	351
Sales tax - Federal	59	100
- Ontario	31	52
Customs duties	104	159
- tobacco & alcohol	75	91
- other	16	25
Gasoline & motor vehicle taxes	--	61
All other indirect taxes	<u>95</u>	<u>127</u>
Total	1,117	1,688
Total family income	4,154	5,749
Per cent tax to income	26.8%	29.4%



17. These end results appear to be entirely consistent with the findings of Professor Goffman in 1957, with reasonable allowances for the differences in approach and the time difference between the two studies. Professor Goffman's average tax in 1957 for incomes between \$4,000 - \$5,000 was \$1,177; and for incomes \$5,000 - \$7,000 it was \$1,616 (see "The Burden of Canadian Taxation", Canadian Tax Papers, July 1962, page 13). The family tax burden with $1\frac{1}{2}$ incomes is also consistent with the results written up by Ronald Anderson in the Globe and Mail, 18 April 1961. He reported:

"A resident of Toronto earning \$5,000 a year may expect to pay about \$1,600 of his income in taxes to the three levels of government . . .

"This calculation is based on a married taxpayer with two children, who owns his own home. It assumes that all taxes levied on business are ultimately paid by consumers."

18. Note that our tax totals above do not include statutory levies for unemployment insurance and Ontario hospital service. If these were included, the total of taxes and levies for budget (a) would be \$1,191 or 28.7% of income, and for budget (b) would be \$1,786 or 31.1% of income.

19. If the total tax not including levies, (\$1,117 and \$1,688 in budget (a) and (b) respectively) be calculated in relation to the earned family income (i.e. not including family allowances) in each case, then the burden can be expressed in several ways, for example:



	(a) man only	(b) woman also
	<u>working</u>	<u>working half-time</u>
1 Taxes as per cent of total		
2 family earned income	28.0%	30.2%
3 Additional taxes in budget		
4 (b) as per cent of addi-		
5 tional income (woman's		
6 earnings)		35.8%
7 Week's work to pay annual		
8 taxes --		
9 -- man only	14½ weeks	
10 -- man & woman combined		15-3/4 weeks
11 -- woman <u>only</u> (half-time)		
12 for <u>additional</u> taxes		19 weeks
13 Hours per day worked to pay		
14 daily taxes		
15 -- man only	2 hrs. 14 mins.	
16 -- woman <u>only</u> for		
17 <u>additional</u> taxes		1 hr. 26 mins.
18 Cents per hour used to pay		
19 pay hourly taxes		
20 -- man only	53¢	
21 -- woman <u>only</u> for		
22 <u>additional</u> taxes		54¢
23		
24 For the sake of clarity, perhaps it should be pointed out		
25 that the 15-3/4 weeks for the man and woman together to		
26 earn the combined annual taxes are weeks in which the		
27 husband is working full time and the woman half time.		
28 Similarly, the 19 weeks required for the woman alone to		
29		
30		



earn the additional taxes resulting from her addition to the family income are weeks in which she works her accustomed half-time schedule.

20. From the average worker's point of view, these down-to-earth measurements indicate how really heavy the tax burden is. How this burden relates to the uses to which his tax money is put may be illustrated by listing what the taxes taken out of a day's pay really buy. Our average electrical worker earned \$1.89 an hour in 1961, or \$15.12 an eight-hour day. Out of this pay comes a total of \$4.23 for all kinds of taxes. Using the distribution of the total tax dollar from page 3, we get the allocation of his day's taxes levied by all levels of government to be:

Administrative Functions

general government	31 cents	
debt charges	35	\$0.66

Provision of Services

military expenditures and		
veterans' pensions	78	
education	57	
all other services	56	1.91

Social Security

old age pensions	31	
family allowances	22	
all other social security	13	.66

Economic Development

highways, roads and bridges	47	
natural resources	22	
all other	31	1.00

Total		<u>\$4.23</u>
-------	--	---------------



21. In the last analysis, the balance in which the tax burden for any family is weighed is that of burden versus benefit. (For society, or the economy as a whole, there is another "balance" which will be discussed later.) For our typical family, therefore, the question is -- Does the basket of items acquired in return for each dollar of taxes compensate for the removal of this dollar from the family's control? Or would some part of it spent otherwise be of greater value to the family? Undoubtedly everyone would like to pay out less in taxes and have more to spend himself. But accepting for the moment the existing level of taxes, we submit that the average worker's family would like to see the following changes in governments' spending pattern:

- somewhat less on general administration
- considerably less on military affairs
- more on social security, especially for old people
- considerably more for economic development, especially job-creating enterprises.

22. For the whole economy, the balance in which tax policy should be weighed is that of advantage or disadvantage to society. Income redistribution is an inherent element of modern tax policy, for economic as well as equity considerations, e.g. to provide:

- basic minimums of security against hazards of modern industrial life which the individual family cannot provide itself
- continuity to the distribution of purchasing power needed to stimulate the modern mass consumption economy.



1 23. The apparent income redistribution disclosed
2 by statistics of social security expenditures by govern-
3 ments are very exaggerated and misleading for three
4 reasons:

5 (a) The wealthy also receive old age pensions and family
6 allowances and the share going to them is included
7 in the social security benefit total.

8 (b) The greater part of government interest charges,
9 amounting to about half the social security total,
10 goes back to the wealthy, either directly or through
11 the institutions that they own.

12 (c) Wage and salary earners pay the bulk of the taxes in
13 the first place.

14 Therefore a good part of the effects of the progressive
15 personal income tax is cancelled out and the amount of
16 income redistribution it now produces is much smaller
17 than it appears to be.

18 24. At the income level of the average worker's
19 family, we believe it is an understatement to say that the
20 whole income is spent. Any conceivable increase in
21 disposable income resulting from tax reductions would also
22 be fully spent on additional consumer goods and services.
23 With sluggish economic activity and overcapacity for
24 almost every conceivable product at today's level of
25 demand, it seems obvious that a reduction of taxes on
26 workers' families would produce a needed general economic
27 stimulus. For a progressive shift of the tax burden to
28 those whose wealth is not accumulated from earned income
29 would undoubtedly benefit the economy generally by
30 stimulating demand. We shall return to specific proposals



to achieve this aim later in this Brief.

25. A feature of the present conglomeration of taxes is the element of pyramiding of tax upon tax which is resented by all taxpayers. This pyramiding, since it involves the taxes on consumption, increased the regressiveness of these taxes, and it also complicates the problem of assessing the real incidence of particular taxes. We refer to such examples as this.

Some material or part is imported on which

customs duties are levied and which goes

into a further manufactured product, e.g.

a radio tube costing, say \$1.00

customs duty @ 20% .20

duty paid value \$1.20

This original factory cost of the tube goes

into a radio on which federal sales and

excise taxes are levied at the manufacturer's

selling price. In the process of manufacture,

this tube, as happens with other materials,

gets marked up in price to cover manufacturing

overheads and profit, say by a conservative

25 per cent. So the tube element in the radio

at the manufacturer's selling price is now

valued at 125 per cent of \$1.20 or \$1.50

Sales tax on this @ 11% .17

Excise tax on this @ 15% .22

Equivalent factory selling

price of tube \$1.89

In the chain of distribution from the factory

gate to the ultimate consumer, the price of the



radio (henceof all its parts) is increased by
100 per cent, so at the retail level, our tube
is now priced at \$3.78

On this, Ontario Sales Tax of 3% is .11

Total retail price \$3.89

The total of this pyramid of taxes (including customs
duties) is 70 cents on the original cost of \$1.00!

26. Our illustration of the tax pyramiding on a
radio tube illustrates the obvious situation pertaining
to goods on which several federal and/or provincial and/
or municipal taxes apply. But the pyramiding is much
more widespread than this, since there is some element
of tax (including corporate tax passed on in prices of
goods and services) in every good or service at practi-
cally every stage of manufacture and distribution (at
least at every stage where a market transaction takes
place).

27. How much the total tax bite is increased on any
family by tax pyramiding is difficult to determine. To
avoid it, a first step would be to eliminate sales taxes
at retail level. A second step would be to shift the
imposition of sales and excise taxes at manufacturer's
level to a "value added basis".

III TAX DISCRIMINATION

AGAINST WORKERS COMPARED TO OWNERS

28. The Canadian tax structure, in common with many
other countries, is highly discriminatory as it applies
to workers compared to owners of the businesses which hire
them. Such discrimination arises from three main elements



1 of tax policy and practice:

2 (a) the regressive nature of taxes levied on consumption
3 expenditures or shifted to ultimate consumers in the
4 retail price of goods and services.

5 (b) the avoidance of expenditures made with tax-paid
6 dollars by executives, businessmen and owners.

7 (c) the shielding or exemption from tax of important
8 increments to personal wealth.

9 We shall deal with each of these elements in turn.

10
11 Regressive Consumption Levies

12 29. Any tax levied on income spent for consumption
13 goods and services inevitably discriminates against those
14 whose circumstances compel them to spend all or a high
15 proportion of their incomes, compared to others who can
16 save part of their incomes. In other words, for the
17 income groups who have to spend all of their incomes,
18 their consumption taxes must be a higher percentage of
19 their incomes than for the wealthy, who save (and invest)
20 a large part of their incomes.

21 30. Obviously, the degree of discrimination is
22 intensified for those who have to go into debt (over-
23 spend) as has happened to so many in lower and middle
24 income brackets in recent years. The total of consumer
25 debt (excl. home mortgages, some credit for services and
26 loans between individuals) exceeded \$4.8 billions
27 (D.B.S. "Credit Statistics", December, 1962, page 3)
28 at the end of 1961 -- equal to 20 per cent of total
29 consumer purchases in that year. For all those who had
30 to go into debt, the tax bite on consumption expenditures,



1 therefore, had an over-all 20 per cent greater impact in
2 relation to their incomes. As long as consumer debt
3 continues to increase, and the indications are that it
4 went up at least 10 per cent in 1962, this tax burden
5 continues to mount.

6 31. Besides this inherent, general element of
7 discrimination, particular consumption taxes inject
8 specific elements of discrimination, e.g. --

9 -- a sales tax on house furnishings and appliances
10 discriminates against young couples furnishing
11 their homes, right at the time when their incomes
12 are low.

13 -- a sales or excise tax on specific commodities
14 or services discriminates against those who
15 prefer them compared to those who do not (although
16 this may be desirable in some instances).

17 32. Property taxes bear most heavily on housing,
18 expenditures on which take a higher proportion of low
19 incomes than high. The percentage of total expenditures
20 going for housing, fuel, light and water in the D.B.S.
21 1957 study by income group was as follows:

<u>Income Group</u>	<u>Percentage of total expenditure</u>
\$2,500 - \$2,999	20.2%
3,000 - 3,499	19.8
3,500 - 3,999	18.5
4,000 - 4,499	16.7
4,500 - 4,999	16.9
5,000 - 5,499	17.1
5,500 - 5,999	16.7



<u>Income Group</u>	<u>Percentage of total expenditure</u>
---------------------	--

6,000 - 6,499	15.7
---------------	------

6,500 - 7,000	15.9
---------------	------

(D.B.S. "City Family Expenditure 1957" page 33)

Therefore, property taxes too discriminate against the working man, similar to the consumption taxes.

33. For the property and all indirect taxes (consumption, corporate and others passed along in prices), there is the added related objection -- that because of the absolute burden placed on lower income families the effect is to push down already low living standards. In our typical family, the sum of all these taxes was \$932 in budget (a) and \$1,256 in budget (b). Is there any doubt of the need for families at this level in Canada today to increase their disposable income by means of lower taxes?

34. Writing in 1951, on "The General Manufacturers Sales Tax in Canada", John F. Due remarked:

"In general, within the lower income brackets -- up perhaps to \$4,000 income -- the tax structure as a whole contains very few progressive elements and numerous regressive taxes. The taxes on cigarettes and beer are without question regressive; the same may be true of provincial sales taxes, and to a degree at least of local property taxes."

(Canadian Tax Paper No. 3,
Canadian Tax Foundation, 1951)



1 We believe this to be true today to a much higher level
2 of family income.

3 35. The fact that the personal income tax is levied
4 at progressive rates does not offset the discriminatory
5 and regressive character of property and consumption taxes
6 for the individual worker. A progressive income tax is
7 required to effect some redistribution of income for the
8 benefit of society as a whole. So is a decisive amount
9 of tax relief for working families in order to raise the
10 level of consumption and make the economic machine run
11 faster. The regressive indirect taxes and direct taxes
12 on low incomes, by the transfer of personal income to
13 governments from the great majority of families who
14 would otherwise spend it, reduce personal consumption
15 generally without commensurate substitute consumption
16 expenditures by governments. Even if all of such tax
17 revenues were channelled back to low income families in
18 the form of social security benefits there would be no
19 resulting net increase in consumption -- simply a transfer
20 of consumer spending by one group to another. To the
21 extent that governments spend the proceeds of these taxes
22 for economically wasteful purposes (e.g. military
23 expenditures) or use them to redistribute income to the
24 wealthy (e.g. bond interest), the effect is to enforce
25 austerity on the majority of families to achieve purposes
26 of no value to them.
27
28
29
30



1 Tax Evasion by "Expense-Account" Living

2 36. The worker, living wholly on wages income, has
3 income tax deducted from each pay and must meet all his
4 expenses of living from his remaining tax-paid dollars.
5 In all of these expenditures are imbedded, in one way or
6 another, further taxes which he cannot escape. For the
7 business executive, who also has income tax deducted from
8 his salary at source, there are many expenditures made
9 on his behalf which do not come out of his own tax-paid
10 dollars, even if his whole income is earned and spent.
11 If some of his income is saved, as we have already
12 stressed, the consumption taxes miss this part altogether.
13 Further, if he is also an owner as well as employee, and
14 receives part of his income from investments, he is
15 provided with additional means of tax avoidance. These
16 "escape routes" add up to a very considerable degree of
17 discrimination in the real application of tax policy in
18 favour of the businessman compared to the worker.

19 37. Mrs. Gwyneth McGregor of the Canadian Tax
20 Foundation had something to say on this matter at a panel
21 discussion over a year ago in Montreal:

22 "The present practice encourages luxury
23 spending out of all proportion to the needs
24 of business", Mrs. McGregor contended. "It
25 encourages tax cheating; it permits those
26 who can live on expense accounts to charge
27 many of their personal and living expenses
28 against income and so results in discrimination
29 of the most flagrant kind between those taxpayers
30 and the others who have to foot the bill."



(Globe & Mail, 24 November, 1961)

38. The sort of thing we have in mind here is too well known to need more than passing reference to remind the Commission. For example, corporation executives benefitting personally from company-paid:

- company car or own car allowance
- bar and restaurant bills
- club dues and golf fees
- theatre, sports and night club entertainment
- trips to "conventions" and "conferences"
- vacations at company fishing and hunting lodges, or in the guise of business trips abroad.
- loans to buy homes or major equipment
- moving expenses and rent subsidies
- lavish Xmas and other gifts
- private medical care

The situation was well summed up by Russell Baker in the following manner:

"It is the expense-account man who gets those flying weekends on Caribbean Isles. It is the expense-account man who occupies the suites of the best hotels . . .

"It was the expense-account man . . . who pre-empted all the seats for My Fair Lady and bought up all the World Series tickets last year.

"Of course, what is under attack here, as the bar and restaurant men have noted, is part of the American way of life. In their lobbying against the tax bill last year, they contended that many of the nation's most elegant restaurants and



1 saloons would go bankrupt if their expense-account
2 business were cut off."

3 (Globe & Mail 8 December 1962)

4 39. If the executive is high enough on the company
5 status-ladder, of if he is an owner of the business, the
6 "expense-accounting" can go much further, involving, e.g.

7 -- expensive home maintained at company expense

8 -- repair and construction work on own house or country
9 estate by company

10 -- supply of company materials and products at no
11 personal cost.

12 Probably a better name for it than "expense-account
13 living" would be "corporate living".

14 40. Colin M. Russell, C.A., virtually admitted that
15 this was so in his article on "Trends in Executive
16 Compensation" --

17 " . . . it is submitted that we must assume
18 that a definite trend in executive compensation
19 has developed in recent years toward supplementing
20 the employee's salary, bonus and retirement income
21 by the employing company absorbing, as a cost of
22 its operations, expenses which have been incurred,
23 at least in part, for the pleasure, recreation,
24 entertainment or as a substitute for the personal
25 living and family expenses of its employees."

26 " It is suggested that the Canadian Income
27 Tax Act was intended to cover the inclusion, in
28 the taxable income of an employee, not only of
29 all salaries and bonuses which he receives but
30 also on the monetary value of all so-called



benefits he receives or enjoys in the year as a
result of his employment . . . "

(The Canadian Chartered Accountant, April 1962)

41. How big is the current level of such "corporate living expenditure" cannot be determined from available statistics in Canada. That it is very large, and the treasury is thereby losing a big sum of tax revenue, is incontrovertible. A 1958 estimate for the United States put the expense-account spending conservatively at \$5 billions, with resulting tax loss between \$1 - \$2 billions. (V. H. Rothschild and R. Sobernheim in Yale Law Journal, July 1958). If we apply the usual U.S.-Canada ratio for economic statistics of 12:1 and up-date the 1958 estimate to 1962, we get an estimated Canadian equivalent for expense-account spending of a little over \$500 millions, with resulting tax loss at a conservative 25 per cent rate of \$125 millions!

42. Expense-account living and consequent tax evasion have become so flagrant and widespread that both the U.S. Internal Revenue Service and the Canadian Taxation Division have been impelled to make appropriate deprecatory noises, but the practice goes merrily on. We do not understand why it is not possible to plug this tax loophole effectively. We believe that this is an important matter for the Commission to investigate fully.

43. There are other elements of discrimination in the tax system in favour of executives and owners compared to workers.

44. One is the tax exemption for retirement fund and pension contributions, which in effect comes off the



1 taxpayer's top rate bracket. For example, a worker with
2 \$1,000 taxable income gets the benefit of a 14 per cent
3 tax allowance on his contributions to a pension fund. An
4 executive in the \$15,000 - \$25,000 taxable income bracket,
5 however, gets the benefit of a 45 per cent tax allowance
6 on his contributions. Furthermore, the worker is in no
7 position to make use of the full allowable amount(\$1,500)
8 of such tax-deductible contributions, but the executive is.
9 45.

A second is the granting of stock purchase options
10 to executives at below-market prices under favourable
11 payment conditions. The gain measured by the excess of
12 value of the shares over the amount paid for them is taxed
13 at substantially lower rate than if the equivalent amount
14 had been received as a cash bonus or salary increase.

15 46. A third is the provision of delayed income to
16 senior executives timed to be received after retirement.
17 The payment is usually in the form of an annuity spread
18 over the remaining years of life. Total income after
19 retirement is lower and so the "bonus" gets taxes at a
20 lower rate than if paid when "earned". For the company,
21 this lump sum payment in respect of past services is a
22 deductible expense.

23

24 Tax Shields and Exemptions for Owners

25 47. In addition to the foregoing, which apply in
26 part in favour of owners, there are much more important
27 means of minimizing taxation on vast accumulations of
28 wealth.

29 (a) Capital Gains Exemption

30



1 48. Capital appreciation, except for those in the
2 business of making a particular capital gain, goes
3 completely untaxed in Canada. Yet capital appreciation
4 is the basis of most of the large personal fortunes --
5 accumulation of tax-paid "income".

6 49, In the memorandum of Dissent to the Report of
7 the Royal Commission on Taxation (1952-5) in Britain,
8 Messrs. Kaldor, Woodcock and Bullock wrote:

9 "The full significance of the omission of
10 capital profits from taxation only becomes clear,
11 however, when it is appreciated that the extent
12 to which rewards take the form of tax-free
13 capital gains rather than taxed dividend income
14 is not something that is fixed by nature, but is
15 very much subject to manipulation by the taxpayer.
16 A community with a highly developed capital
17 market like Britain offers wide opportunities
18 for an individual so to arrange his affairs that
19 the accrual of benefits from his ownership of
20 capital takes the form of capital appreciation
21 instead of capital income.

22 " . . . in our view so long as capital gains
23 remains exempt from taxation it is impossible to
24 deal with the problem of the conversion of income
25 into capital gains in all its possible forms by
26 specific pieces of legislation.

27 "All these opportunities, moreover, are far
28 more readily available to the large property owner
29 than to the small saver; and it is well known
30 from American experience that capital gains are



a major source of large incomes but unimportant
as a source of smaller incomes . . . "

(^Her Majesty's Stationery Office,
Cmd. 9474, 1955, pages 368-70)

50. The forms in which capital gains may appear
are myriad. But a few examples will suffice to illustrate
the nature and magnitude of important kinds of capital
appreciation taking place in recent years.

(1) Stock Market Appreciation

51. An example of the increase in market value of
corporate shares over the ten-year period 1952-62 of one
of the large corporations with which UE has collective
bargaining agreements is that of Canadian General Electric
Co. In 1952, there were 188,845 common shares outstanding,
priced at \$415 at the end of that year -- aggregate
market value therefore \$78.4 millions. At the end of
1962 there were 7,555,012 shares priced at \$33 -- total
value of \$249.3 millions. There was no significant new
capital put into the business during this period and
dividends were paid out in every year. Yet the increase
in capital value over the ten years amounted to \$170.9
millions, or 221 per cent. This large capital appreciation
increased the wealth of the owners of C.G.E. (mainly the
U.S. parent company, General Electric) without attracting
any Canadian taxation to them -- the corporate tax on
profits being passed on in the prices of C.G.E. products
as discussed in Appendix D.

52. A similar large untaxed accretion of wealth
has been taking place for the owners of many Canadian
corporations. It would be instructive to know the total



1 increase in market value of all corporation securities
2 in Canada during recent years. Perhaps the Commission can
3 address itself to this problem, and the implications of
4 this large increase in wealth remaining untaxed.

5 (2) Increase in Real Estate Values

6 53. Over the ten-year period 1950-60, the total
7 assessed value of all municipal property in Ontario in-
8 creased from \$4.2 billions to \$9.4 billions, or by 124
9 per cent. On the assumption that assessments average
10 about one-third of value, this would mean a total increase
11 in municipal properties in Ontario of nearly \$16 billions
12 over the decade of the 1950's. On the one hand assessments
13 do not keep currently in step with market values; on the
14 other hand new construction has added substantially to
15 property values. So although no calculation is possible
16 of the capital appreciation reflected in increased real
17 estate values, the indications are that this was consider-
18 able during the decade of the 1950's. Colossal fortunes
19 have been made from land speculation in and about Toronto,
20 as in other Canadian cities since the war. Yet only a
21 small part of this very large accumulation of wealth has
22 been exposed to taxation (only that falling to the hands
23 of persons whose business is making a capital gain from
24 buying and selling real estate). Again it would be most
25 enlightening if the Commission could determine the total
26 of this kind of capital appreciation in recent years.

27 (3) Rights to Purchase Additional Shares

28 54. The conversion of profits into tax-free capital
29 appreciation in the hands of owners has been promoted by
30 the issuance of rights to purchase additional stock below



the market. For example, the Bell Telephone Company has been using this procedure for years. Bell shares acquired with rights below market price have been:

1948	--	1,022,639 shares
1950	--	1,281,719 shares
1952	--	1,557,581 shares
1953	--	1,919,692 shares
1955	--	1,683,394 shares
1956	--	1,717,194 shares
1957	--	2,218,701 shares
1959	--	2,592,986 shares
1961	--	2,129,944 shares
1962	--	2,000,000 shares (approx.)

(Financial Post Corporation Service)

55. The 1962 issue of rights was typical. Stockholders were given the right to subscribe for 1 additional share at \$39 for each 12 shares held. The market price of Bell stock on the date the rights expired was \$48. So each right was immediately worth \$9. Over 99 per cent of the shares offered (approx. 2,000,000) were taken up. The company received \$78 millions. So the stockholders actually received a bonus of $\$9 \times 2,000,000 = \18 millions -- tax free, in one year alone.

56. Over the past ten years, the market value of Bell shares has increased tremendously --

end 1962: 25,298,204 shares @ $\$53\frac{1}{2}$ = \$1,353,453,914

end 1952: 9,599,817 shares @ $\$38-3/8$ = 368,392,977

Total increase 985,060,937

Funds received from sale of new stock per

balance sheet 589,487,000



Net capital appreciation \$ 395,573,937

57. This \$395½ millions is a rough measure of the ten year accumulation of tax free increases in wealth accruing to the stockholders of this company.

58. The Bell Telephone rights are only one example of what has become fairly general practice among banks and leading industrial corporations. The resulting very large tax-free increase in shareholders' wealth reflects just as effective increased command over the output of society as does larger taxable income. To us there appears to be no valid reason why the latter should be taxed and the former not taxed. The tax inequity between an owner who can live well out of tax-free capital gain and a worker who lives poorly out of his taxed, earned income is glaringly obvious.

(b) Corporate Tax Shields for Wealthy Owners

59. The fictitious person, the Corporation, and a number of devices adaptable to corporate exploitation, have created vast possibilities to shield wealthy owners from taxes. The possibilities are numerous and are no doubt much more familiar to the tax experts of the Commission than to us. We cite only three important means widely used in recent years to shield very large elements of wealth from taxation, while providing the owners very greatly enhanced command over resources.

(1) Excessive Capital Cost Allowances

60. Excessive depreciation and depletion allowed as an expense has been a major factor in recent years in short-circuiting the normal flow of profit to individuals in whose hands it was taxed, and the after-tax savings



1 then invested. The result is to distort economic develop-
2 ment by concentrating re-investment in existing corpora-
3 tions (making the big, bigger) instead of encouraging
4 investment in entirely new directions. Now, really
5 colossal sums, earmarked as depreciation or depletion,
6 are never subjected to any tax. They escape corporation
7 tax as an "expense"; they escape personal income tax
8 because they are not distributed. But they provide the
9 funds for continual expansion of the owners' assets. The
10 corporate assets are undervalued on the balance sheet to
11 the degree that the deducted capital cost allowance
12 exceeds the part of original cost passed along into the
13 final product in the process of production. But this
14 does not mean that the asset value is not there, although
15 grossly understated. It is the means of pyramiding the
16 owners' investment without taxation, and without being
17 properly disclosed in financial statements.

18 61. One indication that the allowable deductions
19 are grossly excessive is the fact that many large corpora-
20 tions actually do not take as much depreciation in their
21 published accounts as the tax regulations allow! The
22 result is a calculation of tax bigger than they actually
23 pay with consequent understatement of profit in the
24 financial statements made public.

25 62. In the thirteen years since the tax regulations
26 on depreciation were liberalized in 1949, a total of
27 \$44.3 billions (D.B.S. National Accounts, Income and
28 Expenditure) has been exempted from profits under the
29 guise of capital cost allowances. Over the same period,
30 total business capital formation in Canada (ex. housing)



1 was \$58.4 billions (D.B.S. National Accounts, Income and
2 Expenditure). So in effect 76 per cent of total new
3 investment has been provided by funds short-circuited from
4 the profit stream.

5 63. Under existing tax regulations a new machine can
6 be written down to about half its cost in three years,
7 a new mine pays no tax at all for three years, all explor-
8 ation and drilling expenses for oil and gas wells can be
9 completely written off in one year, the whole capital
10 cost of research facilities plus all of their operating
11 expense can be written off in one year, and so on. It
12 seems obvious that such provisions go very far beyond the
13 amount of original capital used up in these time periods
14 in the process of production. Probably only for automo-
15 biles, where the built-in obsolescence is very high, are
16 allowable rates within reason. The argument that the
17 tax will eventually catch up since the same asset can only
18 be written off once is not convincing when the capital
19 cost allowances are completely reinvested in new assets
20 currently, on which additional capital cost write-offs
21 take place.

22 64. To cure this situation, it seems to us logical
23 to revert to a simple straight-line depreciation policy
24 based on rates clearly in accord with the actual useful
25 life of broad classes of assets. The appropriate
26 composite depreciation rate for all buildings, machinery
27 and equipment would probably work out to an average 5 per
28 cent.

29 (2) Tax Havens

30 65. Besides the device of a wealthy individual



1 removing himself from the jurisdiction of the Canadian
2 tax authorities (except for the 15 per cent withholding
3 tax on income remitted to him abroad) by establishing
4 residence in another country with lower taxes, the years
5 following the second world war have seen the development
6 of a similar (but even more effective) device to remove
7 corporate income from Canadian tax exposure. Tax havens
8 are used for several purposes:

- 9 -- by a Canadian owner to avoid personal income tax
- 10 -- by a Canadian corporation, to avoid Canadian
- 11 taxes on foreign profits
- 12 -- by a foreign parent of a Canadian corporation
- 13 to shift tax-free profit out of Canada on
- 14 import or export business

15 66. The more common tax havens are: Bermuda,
16 Bahamas, Switzerland, Netherlands Antilles, Luxembourg,
17 Liechtenstein, Panama and Liberia (see "Tax Review" in the
18 Canadian Chartered Accountant, April 1962, page 385).
19 Some suggestions as to how individuals should arrange their
20 affairs to take advantage of tax havens were given in
21 this article in the Canadian Chartered Accountant, e.g. --

22 "Tax haven companies may also be used to
23 advantage by individuals, if they can so
24 arrange their affairs that the income is
25 not from business^{carried} on in Canada,
26 and the corporation is not deemed to be a
27 personal corporation . . .

28 "Where a haven company is to be owned by
29 an individual, it may be necessary to
30 appoint foreign directors and to avoid any



suggestion that the managerial function is exercised from Canada. In some circumstances, it may be even necessary for the individual to reside in the other country, at least for a portion of the year. Here again, accessibility, climate and similar considerations become factors of considerable importance." (ibid., pages 386 and 388)

67. For the owners of corporations, and in the final analysis all corporations are owned by individuals, the tax haven company in, say, the Bahamas, may be extremely advantageous to gather together income of various kinds from various foreign sources and shield it from tax for use --

- for personal expenditures abroad
- for investment abroad
- for investment in Canada in the form of a loan
- for any use by a controlled Canadian corporation.

68. The latter is possible by reason of Section 28 (1) (d) of the Income Tax Act which provides that dividends from a non-resident corporation will not be taxable in the hands of a receiving Canadian corporation which owns more than 25 per cent of the stock of the foreign corporation.

69 The most blatant kind of tax dodging, however, is possible where there are several corporations in various countries, including Canada, controlled by a foreign parent company. Let us cite an example from the Westinghouse empire. The Westinghouse Electric Manufacturing Corporation is the United States parent controlling a



1 number of U.S. and foreign corporations, including
2 Canadian Westinghouse Company Ltd., 76 per cent of whose
3 stock is held directly by Westinghouse Electric and
4 another 8 per cent by Westinghouse Air Brake Company.
5 The export business of Canadian Westinghouse (the manufac-
6 turing firm) is funnelled through Canadian Westinghouse
7 Export Co. Ltd., whose stock is owned 49 per cent by
8 Canadian Westinghouse and 51 per cent by Westinghouse
9 International Corp., the top holding company for Westing-
10 house foreign concerns. As far as we can determine,
11 Canadian Westinghouse Export Co. has no salesmen or
12 offices abroad, so all of the Canadian export business
13 appears to be handled by Westinghouse International and
14 its related foreign corporations. At least part (how big
15 a part we do not know) of the imports of Canadian Westing-
16 house from plants of Westinghouse Electric in the United
17 States are shipped direct but billed through Sanford
18 Trading Limited, a Jamaican company wholly owned by
19 Canadian Westinghouse. It is our understanding that a
20 so-called international company incorporated in Jamaica
21 but not carrying on business there pays no Jamaican income
22 tax. Now, let us examine some of the tax evading
23 possibilities for the owners of Westinghouse Electric,
24 who are in turn the majority owners of Canadian Westing-
25 house. If Canadian Westinghouse were importing materials
26 and components "at arms length" and exporting "direct",
27 profits made on all its business would be subject to the
28 52 per cent Canadian corporate tax, and profits withdrawn
29 by the U.S. parent company would bear the 15 per cent with-
30 holding tax. But under the existing complicated inter-



1 company set up --

2 (1) Imports into Canada from the parent company
3 can be priced low to Sanford, in turn priced
4 high by the latter to Canadian Westinghouse,
5 thereby transferring profit to Sanford, tax
6 free. These funds can then be invested any-
7 where the owners of Westinghouse Electric
8 desire, or they can be transferred back to
9 Canada as a tax-free dividend to Canadian
10 Westinghouse.

11 (ii) Exports from Canadian Westinghouse can be
12 priced low to Canadian Westinghouse Export
13 and by the latter priced high to Westinghouse
14 International thereby transferring profit
15 from Canadian Westinghouse to Canadian
16 Westinghouse Export where it does not show
17 to the public (C.W. Export being a private
18 company) but is taxed; or the profit in
19 Canadian Westinghouse Export can be passed
20 on to Westinghouse International or other
21 foreign Westinghouse corporations either
22 by low prices or by charges for services,
23 commissions or what have you.

24 (iii) Profits between the various controlled
25 companies can be transferred either way
26 by appropriate payments of commissions,
27 administrative and other charges, technical
28 fees and royalties, etc.

29 (iv) Funds can be transferred back by loans (tax-
30 free) to the country where the profits were



1 really earned but bled away, or to the parent
2 company, or anywhere else desired by the owners.

3 (v) Interest on the funds "borrowed" as in (iv)
4 would, of course, be a deductible expense for
5 any corporation, including the one which
6 really made the profits in the first place,
7 but passed it on to avoid tax.

8 These are only a few of the tax-dodging permu-
9 tations and combinations open to the owners with such a
10 set-up.

11 70. A hint on how Canada is regarded as a profit
12 sanctuary by U.S. business was given in a Financial Post
13 review of the book "Profit Sanctuaries and How They Are
14 Used";

15 "Canada remains a 'profit sanctuary' for U.S.
16 business, despite the new 15 per cent rate
17 of withholding tax on dividends paid to non-
18 residents.

19 "One reason: Canada levies no tax on dividends
20 received by a Canadian company from a foreign
21 corporation owned 25 per cent or more by the
22 Canadian firm.

23 "Another advantage to a U.S. parent which
24 establishes a Canadian subsidiary as a holding
25 firm, the study points out, is the absence of
26 capital gains tax in Canada.

27 "Proceeds accruing to a Canadian firm from
28 the sale of its foreign assets have, in at
29 least one instance, been exempted entirely from
30 Canadian tax, since they were viewed as capital;



1 it states.

2 "'This insures that, should war or economic
3 necessity require the liquidation of the foreign
4 assets of a Canadian profit sanctuary firm,
5 the proceeds of such liquidation could 'flow
6 north' to Canada untaxed in that country.'"
7 (Financial Post, 21 January 1961)

8 71. The U.S. government has now begun to go after
9 some of these tax haven companies by taxing their profits
10 accruing to the benefit of the U.S. corporation, whether
11 actually received by the latter or not. We suggest that
12 it is time Canada looked into this situation too.

13 (c) Dividend Tax Credit

14 72. The 20 per cent dividend tax credit is supposed
15 to be relief for the individual from double taxation,
16 first on the profits in corporate hands and secondly on
17 the part of these profits distributed as dividends to
18 persons. The theory makes sense only if the corporate tax
19 incidence is wholly on corporate owners. It makes no
20 sense if the corporate tax is shifted forward to consumers,
21 as we maintain is now the case (see Appendix A for
22 expressions of informed opinion on this point).

23 73. In 1960, individuals received a total of \$315
24 millions in dividends. (Department of National Revenue,
25 Taxation Division "Taxation Statistics, 1962", page 39)
26 The 20 per cent dividend tax credit was therefore worth
27 \$63 millions in taxes. Since 63 per cent of the total
28 dividends were reported by persons with incomes above
29 \$10,000, this tax credit meant a remission of \$40 millions
30 in income tax to the individuals best able to pay. In



our opinion, it is time this gift was stopped by elimination of the dividend tax credit, the reason for which no longer exists (if it ever did).

74. We cannot leave this question of dividends and tax without drawing attention to an important additional matter. Taxation statistics for 1960, show cash dividends of fully tabulated companies totalling \$1,631 millions. (ibid., page 153). Dividends paid to non-residents in that year amounted to \$470 millions. (D.B.S. National Accounts, 1961, page 54). This leaves dividends distributed in Canada of \$1,161, of which only \$315 were reported by individual taxpayers. The National Accounts, however, show \$408 (D.B.S. National Accounts, 1961, page 54) of dividends paid to Canadian persons in 1960. Why the discrepancy between the two figures for dividends received by persons -- where did the other \$93 millions of dividends go that were not reported on tax returns?

75. Secondly, the very large amount of dividends paid out to "non-persons", i.e. other corporations, foundations, trusts, etc., amounting to \$846 millions or \$753 millions (\$1,161 - \$315 or \$1,161 - \$408) apparently escaped taxation as distributed income. Evidently the substantial shareholders who effectively control the corporations have been quite successful in devising ways to avoid receiving dividends subject to taxation. Thus the tax system explicitly designed to tax individuals' income, not only exempts the large part of corporate income not distributed as dividends yet owned by individuals, but also fails to tax the greater part of what is distributed in the form of dividends!



1 76. We cannot better sum up this discussion of tax
2 shields for the wealthy than to quote the Association of
3 Inspectors of Taxes on this matter in their memorandum
4 to the British Royal Commission:

5 "Legal avoidance has become a science with its
6 own inventors and practitioners. . . In almost
7 every case the machinery of avoidance depends
8 on a legal fiction -- the separate personality
9 of the Private Limited Company. At its simplest
10 the taxpayer, whether trade or investor, steals
11 an advantage over his less clever or more
12 conscientious fellow by escaping surtax on
13 undistributed profit; but he pays himself
14 expenses and other allowances in money or in
15 kind; he rewards himself for giving up the
16 Direction of his own business or for undertaking
17 not to compete with himself; he turns invested
18 income into earned income by paying himself for
19 managing his own investments; the property
20 dealer converts his trade into a series of
21 casual gains by forming a separate company to
22 handle each transaction; the builder turns
23 each speculative scheme into a casual gain by
24 entering into a separate contract (at an un-
25 profitable price) with a separate company
26 which has only one transaction of buying and
27 selling and then expires; the manufacturer
28 buys a moribund company with large accumulated
29 tax losses which he sets against his subsequent
30 profits; and so on. (Royal Commission on



1 Taxation, 1952-55, Volumes of Evidence, Document 32.)

2

3 IV PROPOSALS FOR TAX RELIEF FOR WORKERS' FAMILIES

4 77. At the outset we wish to make it clear we fully
5 realize that a complete change in tax policy carried
6 through in a short time would seriously disrupt all kinds
7 of economic activities. We do firmly believe, however,
8 that tax policy must move steadily and fairly rapidly in
9 the direction of eliminating the regressive, tax-pyramiding
10 retail sales taxes; of reducing the number and rates of
11 all other indirect taxes; of exempting the average
12 worker's family, which needs to increase its consumption,
13 from income tax; of maintaining the required level of
14 government revenues from increased personal tax collections
15 levied on all kinds of wealth accumulations. At the same
16 time, of course, government expenditures must be
17 controlled and channelled into activities of the most
18 benefit to the greatest number of Canadians.

19 78. It is with these general objectives in mind
20 that we make the following proposals for immediate action
21 to relieve the tax burden on average working families,
22 for their direct benefit and for the benefit of the
23 economy as a whole.

24 1. Reduce retail sales tax to maximum 2 per cent

25 79. Expand exemptions from retail sales tax to
26 include all food and clothing (except furs). Make up the
27 resulting lost revenue to the provinces by federal
28 allocations of funds cut from the military budget. The
29 total cost (i.e. lost provincial revenues) from cutting
30 retail sales taxes to 2 per cent would be about \$200



1 millions a year. This will have to be made up to the
2 provinces from federal revenue. Initiate discussions with
3 the provinces looking towards the complete dismantling of
4 the retail sales taxes and attendant collection machinery.

5 2. Eliminate federal excise taxes

6 80. Elimination of the excise taxes levied under
7 Parts IV and V of the Excise Tax Act (covering generally
8 radios, phonographs, TV sets, watches, cosmetics,
9 tobaccos, smokers' supplies, toilet articles, playing
10 cards, wines) would do away with a good deal of tax pyra-
11 miding below the retail tax level. Elimination of these
12 taxes would also reduce the degree of regression in the
13 present tax structure. The revenue cost of this proposal
14 would probably be in the neighbourhood of \$250 millions,
15 a sum which could readily be recouped by a further cut in
16 military spending.

17 81. It should be noted in passing that this proposal
18 still leaves the excise duties (under the Excise Act)
19 imposed on alcoholic beverages and tobacco products un-
20 touched. These produce an annual revenue over \$350
21 millions.

22 82. Furthermore, the proposal to offset the revenue
23 loss from sales and excise tax cuts by a like reduction
24 in military spending would still leave this item of govern-
25 ment expense in excess of \$100 millions a month.

26 3. Accept the family as fundamental tax base unit

27 83. A family as defined in the Census, "consists of
28 a husband and wife (with or without children, who have
29 never married), or a parent with one or more children
30 never married, living together in the same dwelling.



Adopted children and step children have the same status as own children. (Census Bulletin 2. 1-6 (1962)). The family is the basic earning and spending unit. Under present-day conditions the necessity is very clear of more than one income in the average worker's family to produce an acceptable standard of living. Up to this minimum level of income and expenditure, it is inequitable to tax separately individual contributors to the family income. At the other end of the income scale, it is inequitable to allow the receipt of large income to divide it fictitiously among different individuals in the family in order to reduce tax. Therefore we see an advantage throughout the income scale of taxing the total family income as one unit. We have not been able to estimate the net effect of this proposal on revenue loss and gain at opposite ends of the income scale, but would hope that they would be about offsetting.

4. Establish basic untaxed income level of \$2,500 for single-person and \$6,000 for multiple-person families

84. These levels were deliberately suggested so that the family exemption for two people is greater than twice the single person exemption. It is precisely at the time of marriage and up to the birth of the first child when married couples' expenditures are big to cover the costs of setting up a home. The \$6,000 tax exemption, therefore, provides a little leeway at the outset to cover these expenditures.

85. These are about the average expenditure levels found by the D.B.S. 1959 Family Expenditure Survey, when adjusted for price increases since then. -- \$2,530 for



1 single persons and \$5,750 for families of two or more.
2 They represent reasonable minimum standards of expenditure
3 today which certainly leave no room for luxuries or
4 savings. Such exemption levels would remove about
5 930,000 single persons and 1,936,000 families from paying
6 income taxes altogether. The revenue cost of this change,
7 at existing income and old age security tax rates, would
8 appear to be about \$525 millions from people released
9 entirely from income tax (see Appendix A. Table II) and
10 around \$462 millions for the effect of exemption increase
11 on remaining taxpayers at existing rates (see Appendix A,
12 Table III).

13 5. Revise income tax rate progression

14 66. Instead of the present starting rate of 14
15 per cent, proceeding with very gradual increases to 26
16 per cent at \$7,000 of taxable income, reaching a maximum
17 rate of 80 per cent on taxable income above \$400,000, we
18 suggest a more regular progression of rate increases
19 reaching the same maximum 80 per cent at \$100,000 of family
20 income. The rate schedule we propose is as follows,
21 applying to all annual income above the basic exemptions
22 of \$2,500 and \$6,000:

23	on first \$1,000 above exemption	--	5%
24	on second \$1,000 above exemption	--	10%
25	on third \$1,000 above exemption	--	15%
26	on fourth \$1,000 above exemption	--	20%
27	on fifth \$1,000 above exemption	--	25%
28	on sixth \$1,000 above exemption	---	30%
29	on seventh \$1,000 above exemption	--	35%
30	on eighth \$1,000 above exemption	--	40%



1	on ninth \$1,000 above exemption	-- 45%
2	on next \$2,000 above exemption	-- 50%
3	on next \$2,000 above exemption	-- 55%
4	on next \$2,000 above exemption	-- 60%
5	on next \$4,000 above exemption	-- 65%
6	on next \$10,000 above exemption	-- 70%
7	on next \$65,000 above exemption	-- 75%
8	on all income above \$100,000	-- 80%

9 For a detailed comparison of these proposal rates with
10 present rates, see Appendix A, Table IV.

11 87. It will be seen that these rates are substanti-
12 ally lower than the present rates on total incomes below
13 \$10,000; Little different on incomes between \$10,000 and
14 \$13,000; and increased on incomes above \$13,000.

15 88. The net revenue gain from these rate changes on
16 incomes above the proposed general exemptions appear to
17 be about \$85 millions (see Appendix A, Table III).

18 89. Workers strongly (and rightly) argue that they
19 should have some of the benefits of the tax treatment
20 accorded to corporations. They demand that their expendi-
21 tures for property taxes on a home, mortgage interest,
22 cost of tools and work clothing, car expense to and from
23 work be allowed as "expenses" (deductions from gross
24 income) in determining taxable income, just like corpora-
25 tions. We agree in principle that such demands are
26 justified. We are of the opinion, however, that our
27 proposal for a family exemption level sufficient to cover
28 a reasonable total of average family expenditures
29 (including the main items workers wish to be allowed as
30 "deductible expenses") is the best way to handle this



1 demand. This proposal, of course, must be evaluated as
2 part of the general scheme of taxation we suggest, which
3 also entails reduction of indirect taxes, skewing the
4 present tax rate progression and inclusion of capital
5 appreciation within the concept of taxable income.

6 90. To summarize the tax relief proposals of this
7 section of the Brief:

8 -- \$200 millions cut in sales taxes, mostly
9 benefitting workers

10 --- \$250 millions cut in excise taxes, largely
11 benefitting workers

12 -- \$525 millions cut in income taxes by relieving
13 a total of 2,866,000 single persons and families
14 from income tax.

15 -- net \$377 millions cut on income tax of taxpayers
16 above the exemption levels.

17 91. If we assume that the increased consumer spend-
18 ing out of the last item above is about the same as the
19 increased savings of higher income recipients of the sales
20 and excise tax cuts, then the net addition to total
21 consumer expenditures from all these tax cuts would be
22 \$975 millions (\$200 + \$250 + \$525). This sum is
23 equivalent to an overall 4 per cent increase in the actual
24 consumer expenditure total for 1961. In that year the
25 average gross national product created per "paid employee"
26 in the labour force was \$7,500. (\$36,844 millions G.N.P.
27 (D.B.S. National Accounts, 1961 page 20), divided by
28 4,909,000 employed workers. (D.B.S. Labour Force Survey,
29 Special Table 3 (c), 12 month average for 1961). One
30 measure of the economic stimulation from this additional



1 \$975 millions of consumer purchasing power, therefore,
2 would be the creation of 130,000 additional jobs (\$975
3 millions divided by \$7,500 output per worker; assuming
4 that this purchasing power was spent for consumer goods
5 and that the average employment content of each dollar of
6 G.N.P. is about the same as that for each dollar of
7 consumer goods and services).

8
9 V PROPOSALS FOR TAXATION OF CAPITAL GAIN

10 92. The fundamental trouble with the tax system is
11 the artificial distinction drawn between capital and income,
12 with taxes levied only on the latter. Not only does this
13 system exclude important accretions of wealth from taxation
14 altogether, it is a cause of much economic waste in
15 efforts to minimize tax by minimizing what is defined as
16 income and in administration of a tax structure with a
17 gigantic built-in loop-hole.

18 93. The argument for an all-inclusive concept of
19 "income" was clearly stated by three of the Commissioners
20 in their Memorandum of Dissent to the Report of the
21 British Royal Commission on Taxation 1952-55, as follows:

22 "In our view the taxable capacity of an
23 individual consists in his power to satisfy
24 his own material needs, i.e. to attain a
25 particular living standard. We know of no
26 alternative definition that is capable of
27 satisfying society's prevailing sense of
28 fairness and equity . . .

29 " . . . no concept of income can be really
30 equitable that stops short of the comprehensive



1 definition which embraces all receipts which
2 increase an individual's command over the use
3 of society's scarce resources -- in other words,
4 his net accretion of economic power between
5 points of time! . . .

6 "Definitions of income giving expression to
7 this basic principle have been offered by
8 various writers on public finance, all of which,
9 subject to minor differences, agree in regarding
10 'income' as the sum of two separate elements,
11 namely personal consumption and net capital
12 accumulation . . .

13 "The above definition focuses attention on two
14 fundamental aspects of the concept of income
15 which reflects the increment of 'spending power'
16 or 'economic power' in a period. One is that
17 income is a measure of the increase in the
18 individual's command over resources in a period,
19 irrespective of how much or how little of that
20 command he actually exercises in consumption . .

21 The second is that 'net saving' (and hence
22 income) includes the whole of the change in
23 the value of man's store of property rights
24 between two points of time, irrespective of
25 whether the change has been brought about by
26 the current addition to property which is
27 saving in the narrower sense, or whether it
28 has been caused by accretions to the value of
29 property. From the point of view of an
30 individual's command over resources, it is



1 the change in the real value of his property
2 which alone matters, and not the process by
3 which that change was brought about.

4 (Her Majesty's Stationery Office, Dmd. 9474, 1955
5 pages 355-6.)

6 94. The acceptance of this concept, with which we
7 fully agree, means that owners should not be able to
8 escape taxation by covering major parts of their expendi-
9 tures out of corporation funds ("corporate living"), or
10 by increasing their economic power by accumulations of
11 wealth inside the corporate shield, or by capital
12 appreciation in their own hands. These are the great
13 untapped sources of government revenue in Canada which
14 must be taxed to provide the funds needed to meet in-
15 creasing government responsibilities, while relieving
16 lower paid wage and salary earners of an oppressive tax
17 burden, and so increasing consumer demand.

18 95. As a series of specific proposals for fundamen-
19 tal revision of the tax system in this direction we
20 recommend the following:

- 21 (1) Require all businesses to report all remuneration
22 and perquisites to employees and owners, whether
23 paid in cash, kind, present or future benefits,
24 and to deduct income tax at appropriate personal
25 rates on this total remuneration. The only
26 allowable company-paid personal expenses should
27 be those directly connected with producing
28 company revenue and fully supported by valid
29 receipts. This was estimated (page 26) to
30 produce a possible revenue of \$125 millions.



- 1 96. (2) Require corporations to include realized
2 capital gains in income. At each year end
3 require corporations to report on Form T-5,
4 in addition to dividends paid to each stock-
5 holder, the proportion of total corporate
6 after-tax profit distributed as dividends;
7 and to show 15 per cent tax remitted to the
8 government on behalf of the stockholder on
9 total (distributed and undistributed) profits.
10 Corporations distributing no dividends but
11 having net profits in any year would have to
12 report on Form T-5 the individual stockholder's
13 aliquot part of such retained profit and the
14 tax remitted on his behalf. Then stockholders
15 would be required to include both distributed
16 and undistributed corporate profit on their
17 returns and pay tax at appropriate personal
18 tax rates, less the 15 per cent tax already
19 remitted.
- 20 97. A very rough estimate of the additional revenue
21 from such a method of taxing undistributed
22 corporate income (with no allowance for the
23 addition of realized capital gain to corporate
24 profits), based on 1960 taxation statistics would
25 be:
26
27
28
29
30



corporate profit
after tax \$1,820.6 millions (1)
less-dividends to
non-residents 470.
dividends to
persons in
Canada 314.6 784.6 millions
\$1,036.0 millions
for stockholders
assume average
tax rate of 25%
estimate tax revenue \$259.0 millions

98. (3) Disallow excessive depreciation and depletion deductions. (Argument on the propriety of this idea has already been included earlier in this Brief.) If a reasonable average 20-year life were assumed for depreciable assets (longer for buildings, shorter for some machinery) and the resulting additional business profits assumed to attract 50 per cent corporate tax and an average 25 per cent personal income tax on the remainder, the added tax revenue would approximate \$519 millions. (see Appendix A, Table V)

99. (4) Require individuals to include capital gains realized in their hands as income. This important source of wealth increase would then be subject to personal income tax just as all

((1) "Taxation Statistics 1962", page 153 and data quoted on page 40 of this Brief.)



other "income". How big the additional revenue from this tax (and that on the similar treatment of corporate capital gains recommended in (2) above) would be is impossible to determine. That it would be very large, especially during boom periods like the 1950's we have no doubt. 100. In summary, we estimate the revenue effects of the taxation changes we have recommended to be of the following orders of magnitude:

reduced revenue as result of --

-- retail sales tax reduction		\$200 millions	
-- elimination of federal excise taxes	<u>250</u>	"	
	\$450	"	
recouped by cut in military expenditures	<u>450</u>	"	
-- standard exemptions of \$2,500			
for single persons	\$276		
and \$6.00 for families	<u>711</u>	987	"
-- less gain from skewing of income			
tax rate progression	<u>85</u>	"	
total lost revenue	<u>\$902</u>	"	

increased revenue as result of --

-- eliminating "corporate living"			
evasions		\$125 millions	
-- eliminating dividend tax credit	63	"	
-- taxing undistributed profits	259	"	
--- taxing hidden profit in			
excessive depreciation			
as corporate profit	\$415		
as undistributed profit			
accruing to individuals	<u>104</u>	519	"



1 --- taxing of realized capital gains ? "
2 total gained revenue \$966+ "

3 Actually these estimates of tax gains are conservative,
4 since the consumption-expanding tax reductions recommended
5 will have a powerful stimulating effect on the economy
6 generally -- hence on profits and tax revenues therefrom.

7 101. It will be noted that, before taking account of
8 increased revenue from taxing realized capital gains,
9 our proposals work out to a balance of gains. Therefore,
10 the yield from the capital gains portion of the income tax
11 will make it possible to increase the level of required
12 government expenditures somewhat, and to use some of the
13 capital gains tax proceeds to offset progressive reduction
14 of the remaining indirect taxes first, followed by
15 reduction of the corporate tax. Eventually, therefore,
16 we should look to a simple tax system consisting wholly
17 of steeply progressive rates on all increases of wealth
18 accruing to individuals.

19 102. To the argument that such a system of taxation
20 would kill incentive and destroy the savings necessary for
21 investment we would reply --

- 22 (1) This is the argument that has been put forward
23 against every progressive tax increase and it has
24 always been proved wrong in practice.
- 25 (2) As long as there is the opportunity for some exten-
26 sion of individual economic power through accumulation,
27 private saving and investment will continue.
- 28 (3) Should private investment fail to flow into the most
29 needed places it is always possible for government
30 to channel part of the savings of the community in



the desired direction.

(4) Reduction of taxes bearing on consumption can be a most important stimulant to investment.

103. We believe the following remarks of a tax expert at the Canadian Tax Foundation conference last autumn really supports this view --

"Professor John Due of the University of Illinois, widely regarded as North America's leading authority on the sales tax, said one weakness of the sales tax is that, by raising prices, it may reduce consumption.

"It must be remembered," he said, "that investment depends in large measure upon the total volume of consumption, and thus taxes which particularly restrict consumption may have more effect on the actual volume of investment than those taxes taking a portion of the return from investment."

(Globe and Mail, 30 November 1962)

VI MISUSE OF TAXATION AS INCENTIVE TO BUSINESS

104. Included in this Brief, although somewhat in the nature of an addendum, UE wishes to place its views on record concerning tax incentives to business.

105. In the first place, we wish to emphasize again, that the only effective stimulus to industrial expansion is the prospect of increased demand for industry's products. Particularly at the present time, when there is unused capacity to produce almost every conceivable product, general tax reductions to business will not result in new



1 facilities, but only in increased profits. Secondly,
2 with reference specifically to increased capital cost
3 allowances as the form of tax incentive to business,
4 whereby the bonus is obtained only after the new investment
5 takes place, we do not believe that this will be effective
6 either in the particular circumstances prevailing in
7 Canada. The lure is that of greater profit through faster
8 pay-out of the new investment, thus releasing more internal
9 funds for further investment, delaying the tax impact and
10 hence facilitating profitable interim use of the funds,
11 and so forth.

12 106. The trouble is that you do not get something
13 for nothing. A tax incentive means less taxes from some-
14 body; therefore the remaining taxpayers must pay more if
15 the same level of government activity is to be maintained.
16 The problem, therefore, is to measure the benefit expected
17 from the incentive against its cost. At the present time,
18 there is great need for expanding Canadian manufacturing,
19 particularly of materials, components and finished goods
20 coming mainly from the United States. A tax incentive,
21 in the form of additional depreciation deductions allowed
22 for taxes, is often recommended as a means of stimulating
23 this expansion of manufacturing. We do not believe a tax
24 incentive will achieve this purpose for the following
25 reasons;

- 26 (1) The tax reduction to industry would most likely
27 be made up from increased collections of indirect
28 taxes, which bear directly on consumption. Thus
29 the impact of the "cost" will defeat the
30 "incentive". The only really effective entice-



1 ment to industry to expand is the prospect of
2 increased demand.

3 (2) The area in which increased Canadian production
4 is most desired is exactly that most subject
5 to the control of U.S. parent companies.
6 Decisions concerning the Canadian subsidiary's
7 manufacture or importation of materials, parts
8 and finished goods from related foreign corpora-
9 tions are based on many considerations affect-
10 ing the parent's world profit position. A tax
11 incentive in Canada is only one, probably very
12 minor, factor. To the extent it did have any
13 effect, it would extend foreign control, which
14 was at the root of the problem in the first
15 place.

16 (3) Much more satisfactory results can be obtained
17 from direct attack on such problems. (The
18 tariff change which forced manufacture of
19 automotive transmissions in Canada is a case in
20 point.) If Canadian subsidiary companies will
21 not make presently imported components in
22 Canada, imposition of quota restrictions on
23 imports, or the establishment of Crown Companies
24 to do the job, is likely to be more successful
25 than any tax incentive -- and less costly.

26 107. For these reasons, we are generally opposed to
27 distortion of the primary purpose of taxation, i.e. to
28 provide the needed flow of funds to governments, for
29 purposes of indirectly "directing" the economy.



APPENDIX A

MISCELLANEOUS STATISTICAL TABLES

TABLE I -- Classification of all Governments' Expenditures, 1959

TABLE II -- Estimated Releases from Income Tax as Result of Proposed Changes in Personal Income Exemption Levels

- (a) single persons with no dependents
- (b) single persons with dependents and families

TABLE III -- Estimated Revenue Effects of Proposed Changes in Personal Income Exemption Levels and Tax Rates on Remaining Taxpayers

- (a) single persons with no dependents
- (b) single persons with dependents and families

TABLE IV -- Comparison of Proposed and Present Personal Income Tax Rates

TABLE V -- Estimated Additional Tax Revenue from Disallowance of Excessive Depreciation and Depletion



APPENDIX A

TABLE I

CLASSIFICATION OF ALL GOVERNMENTS' EXPENDITURES, 1959 (1)

(after elimination of inter-government transfers)

	<u>Total</u>	<u>Per Cent</u>
	(\$ billions)	
<u>Administrative Functions</u>		
general government (2)	0.7	7.2
debt charges	<u>0.8</u>	<u>8.3</u>
	<u>1.5</u>	<u>15.5</u>
<u>Provision of Services</u>		
military services and veterans pensions	1.8	18.6
education	1.3	13.5
hospital & other health services	0.7	7.2
protection of persons & property	0.4	4.1
sanitation and waste removal	0.1	1.0
employment service	<u>0.1</u>	<u>1.0</u>
	<u>4.4</u>	<u>45.4</u>
<u>Social Security</u>		
old age pensions	0.7	7.2
family allowances	0.5	5.2
unemployed	0.1	1.0
other	<u>0.2</u>	<u>2.1</u>
	<u>1.5</u>	<u>15.5</u>
<u>Economic Development</u>		
highways, roads and bridges	1.1	11.2
other transportation & communication	0.3	3.1
natural resources	0.5	5.2
all other	<u>0.4</u>	<u>4.1</u>
	<u>2.3</u>	<u>23.6</u>
GRAND TOTAL	<u>9.7</u>	<u>100.0</u>



- 1 total taxes, licenses, liquor profits etc. 9.0
2 net increase in debt to public 0.7
3 (1) Source: D.B.S. "A Consolidation of Public Finance
4 Statistics, 1959". Contributions to "own government
5 enterprises" offset by revenues from "own enterprises"
6 other than liquor boards, and therefore eliminated
7 from D.B.S. totals.
8 (2) Includes international cooperation and assistance
9 expenditures. External Affairs and Immigration
10 Departments' expenditures also transferred to this
11 item from D.B.S. "other expenditures", remainder of
12 which is here included under Economic Development.



APPENDIX A

TABLE II

ESTIMATED RELEASES FROM INCOME TAX AS RESULT OF PROPOSED
CHANGES IN PERSONAL INCOME EXEMPTION LEVELS

(a) Single Persons with no Dependents, 1960

	<u>Taxpayers</u>	<u>Income</u>	<u>Tax</u>
Taxed as single with no dependents,			
with incomes up to \$2,499	929,433	\$1,635	\$82.5
(from "Taxation Statistics 1962".			

Table 6, page 78)

Besides single persons earning less than proposed exemption of \$2,500., above figures would include second family members earning over \$1,250 and hence taxed as "single persons" in 1960. The incomes of these would be included in the family income in our proposal and if the resulting family total exceeded \$6,000 they would be taxed (as part of the family). Therefore, the above figures tend to overstate the revenue loss from this element of the proposed higher exemption.

(b) Single Persons with Dependents and all
Families, 1960

(for our purposes single persons with dependents were treated as families)

	<u>Taxpayers</u>	<u>Income</u>	<u>Tax</u>
		- millions-	
<u>With incomes up to \$5,999</u>			
single with dependents	206,997	\$1,023	\$ 83.3
married, no dependents	487,663	1,818	111.8
married, 1 dependent	364,098	1,461	86.1
married, 2 dependents	374,625	1,590	85.7



	<u>Taxpayers</u>	<u>Income</u>	<u>Tax</u>
		- millions -	
1			
2			
3	<u>With incomes up to \$5,999 (continued)</u>		
4	married, 3 dependents	228,554	.998
5	married, 4 dependents	112,430	504
6	married, over 4 dependents	81,834	382
7	Total	1,936,201	\$7,776
8			\$442.3

(from "Taxation Statistics, 1962", Table 6,
pages 78-9)



ESTIMATED REVENUE EFFECTS OF PROPOSED CHANGES IN PERSONAL INCOME EXEMPTION LEVELS AND TAX RATES ON REMAINING TAXPAYERS (1)

(a) Single Persons with no Dependents, 1960

Income Level	Taxable Income Level	Taxpayers	Total Income	Present Tax (millions)	Estimated Total Taxable Income (2)	Bracket Tax Rate (3)	Estimated Tax Yield (4)
						Present	Present
\$2,500 - \$3,499	\$1,000	492,353	\$1,459.1	\$128.7	\$228.2	14%	\$31.9
3,500 - 4,499	2,000	275,264	1,082.9	118.2	394.8	17	58.8
4,500 - 5,499	3,000	121,843	600.3	73.1	295.7	20	48.2
5,500 - 5,999	3,500	30,588	175.2	22.6	98.8	est. 17	16.7
6,000 - 6,999	4,500	34,058	218.9	29.2	133.8	est. 22	24.0
7,000 - 7,999	5,500	17,269	128.5	17.6	85.3	est. 24	16.1
8,000 - 8,999	6,500	8,633	72.7	10.4	51.1	est. 26	10.2
9,000 - 9,999	7,500	5,932	55.9	8.5	41.1	est. 28	8.5
10,000 and up	8,500 and up	19,969	416.2	106.7	367.0	est. 40	140.1
		1,005,909	\$4,210.4	\$515.0	\$1,695.8		321.1
							259.4

Tax loss on incomes above \$2,500 from raising exemption present tax collections \$515.0 millions
estimated yield from present rates after proposed exemptions 321.1
loss 193.9

Tax loss on incomes above \$2,500 from new rates estimated yield from present rates \$321.1 millions
estimated yield from new rates 259.4
loss 61.7

- (1) i.e. those above income level of \$2,500 covered in Table II. Source: "Taxation Statistics 1962" Table 6, page 78
 - (2) Total income less number taxpayers times exemption (\$2,500)
 - (3) Estimated rates shown to interpolate given rates to taxable income brackets dictated by published income level statistics
 - (4) Calculated by applying appropriate bracket tax rates to each step of taxable income
- * Present yield used since estimated yield exceeded present yield due mainly to effect of dividend tax credit not used in calculating yields.



APPENDIX A TABLE III (continued)
ESTIMATED REVENUE EFFECTS OF PROPOSED CHANGES IN PERSONAL INCOME EXEMPTION LEVELS AND TAX RATES ON REMAINING TAXPAYERS (1)

(b) Single Persons with Dependents and All Families, 1960

Income Level	Taxable Income Level	Taxpayers	Total Income	Present Tax (millions)	Estimated Taxable Income (2)	Bracket Tax Rate (3)		Estimated Tax Yield (4)	
						Present	Proposed	Present	Proposed
								(millions)	(millions)
\$ 6,000-6,999	\$ 1,000	191,221	\$1,231.8	\$114.9	\$ 84.5	14%	5%	\$ 11.8	\$ 4.2
7,000-7,999	2,000	104,893	780.6	82.1	151.3	17	10	22.6	9.8
8,000-8,999	3,000	60,821	514.4	59.5	149.5	20	15	24.5	13.3
9,000-9,999	4,000	39,536	373.2	46.6	136.0	19	20	27.6	15.3
10,000-14,999*	\$ 4,000-9,000	73,679	851.2	125.1	409.1	est. 25	est. 35	80.2	77.0
15,000-19,999*	9,000-14,000	23,100	381.2	73.2	242.6	est. 35	est. 52	66.4**	86.2
20,000-24,999*	14,000-19,000	9,760	210.0	48.2	151.4	50	65	48.2**	73.8
25,000-49,999*	19,000-44,000	12,380	394.5	111.4	320.2	est. 73	est. 75	111.4**	195.3
50,000-99,999*	44,000-94,000	2,360	148.8	52.5	134.6	60	80	52.5**	93.2
100,000-199,999*	94,000-194,000	402	50.2	20.4	47.8	75	80	20.4**	38.2
200,000 and up	over 194,000	71	20.7	9.8	20.3	75	80	9.8**	16.2
		518,223	\$4,956.6	\$743.7	\$1,847.3			475.4	622.5

Tax loss on incomes above \$6,000 from raising exemptions:
present tax collections \$743.7 millions
estimated yield from present rates after proposed exemptions 475.4
loss \$268.3

Tax gain on incomes above \$6,000 from new rates:
estimated yield from new rates \$622.5 millions
estimated yield from present rates 475.4
gain \$147.1

(1) i.e. those above income level of \$6,000 covered in Table II. Source: "Taxation Statistics 1962" Table 6, pages 78-79

(2) Total income less number taxpayers times exemption (\$6,000)

(3) Estimated rates shown to interpolate given rates to taxable income brackets dictated by published income level statistics

(4) Calculated by applying appropriate bracket tax rates to each step of taxable income

* Aggregate statistics spread over income levels in same proportion as statistics for total taxpayers in "Taxation Statistics 1962" page 8

** Present yield used since estimated yield exceeded present yield due mainly to effect of dividend tax credit not used in calculating yields



APPENDIX A

TABLE IV

COMPARISON OF PROPOSED AND PRESENT PERSONAL INCOME TAX RATES

Proposed			Present		
Applicable Family Income Level ⁽¹⁾ (dollars)	Tax Rate	Taxable Income Level (dollars)	Applicable Family Income Level ⁽²⁾ (dollars)	Tax Rate	
6,000 - 6,999	5%	1st 1,000	2,500 - 3,499	14%	
7,000 - 7,999	10	2nd 1,000	3,500 - 4,499	17	
8,000 - 8,999	15	3rd 1,000	4,500 - 5,499	20	
9,000 - 9,999	20	4th 1,000	5,500 - 6,499	19	
10,000 - 10,999	25	5th 1,000	6,500 - 7,499	22	
11,000 - 11,999	30	6th 1,000	7,500 - 8,499		
12,000 - 12,999	35	7th 1,000	8,500 - 9,499	26	
13,000 - 13,999	40	8th 1,000	9,500 - 10,499		
14,000 - 14,999	45	9th 1,000	10,500 - 11,499	30	
15,000 - 15,999	50	10th 1,000	11,500 - 12,499		
16,000 - 16,999		11th 1,000	12,500 - 13,499	35	
17,000 - 17,999	55	12th 1,000	13,500 - 14,499		
18,000 - 18,999		13th 1,000	14,500 - 15,499	40	
19,000 - 19,999	60	14th 1,000	15,500 - 16,499		
20,000 - 20,999		15th 1,000	16,500 - 17,499		
21,000 - 21,999		16th 1,000	17,500 - 18,499		
22,000 - 22,999	65	17th 1,000	18,500 - 19,499		
23,000 - 23,999		18th 1,000	19,500 - 20,499		
24,000 - 24,999		19th 1,000	20,500 - 21,499		
25,000 - 25,999		20th 1,000	21,500 - 22,499	45	
26,000 - 26,999		21st 1,000	22,500 - 23,499		
27,000 - 27,999		22nd 1,000	23,500 - 24,499		
28,000 - 28,999	70	23rd 1,000	24,500 - 25,499		
29,000 - 29,999		24th 1,000	25,500 - 26,499		
30,000 - 30,999		25th 1,000	26,500 - 27,499		
31,000 - 34,999		next 4,000	27,500 - 31,499	50	
35,000 - 45,999		next 11,000	31,500 - 42,499		
46,000 - 65,999	75	next 20,000	42,500 - 62,499	55	
66,000 - 95,999		next 30,000	62,500 - 92,499	60	
96,000 - 99,999		next 4,000	92,500 - 96,499	65	
100,000 - 130,999		next 31,000	96,500 - 127,499		
131,000 - 230,999	80	next 100,000	127,500 - 227,499	70	
231,000 - 405,999		next 175,000	227,500 - 402,499	75	
406,000 and up		over 400,000	402,500 and up	80	

(1) assuming \$6,000 exemption

(2) assuming \$2,500 exemption



APPENDIX A

TABLE V

ESTIMATED ADDITIONAL TAX REVENUE FROM DISALLOWANCE OF
EXCESSIVE DEPRECIATION AND DEPLETION

Total capital consumption allowances 1960

(per National Accounts) \$4,293 millions

Total corporate depreciation & depreciation

charged 1960 (per Taxation Statistics) 2,164 "

Therefore ratio total to corporate capital

cost allowances about 2:1

5% allowance on corporate buildings and

equipment at book cost

(per Taxation Statistics) is 1,749 millions

Therefore corporate profit hidden in

excess capital cost allowances is 415 "

Hence estimated total hidden profit in

total capital cost allowances is

2 x 415 = 830 "

50% corporate tax on this is 415 millions

25% effective individual tax rate

on remaining 415 millions is 104 "

Total revenue gain \$ 519 millions



APPENDIX B

FAMILY EXPENDITURE PATTERNS, 1961

(a) Family of four, man only earning total income

	Annual	D.B.S. 1957
	<u>Expenditure</u>	<u>adjusted (1)</u>
	(see notes below)	
Food	\$1,100	\$1,380
Shelter	1,373	1,172
Clothing	388	388
Transportation	260	422
Medical and personal	277	466
Recreation and education	45	245
Smokes and drinks	200	161
Gifts and contributions	121	121
Security	180	174
Other	25	45
Income and O.A.S. Tax	<u>185</u>	<u>164</u>
	<u>\$4,154</u>	<u>\$4,738</u>

(1) from D.B.S. "City Family Expenditure 1957" and unpublished detailed income group breakdowns. This column contains Family Expenditure Pattern for 1957 for income group \$3,500 - \$3,999 adjusted to 1961 prices by appropriate consumer price indexes and family size raised from 3.28 average to 4.

Food -- Toronto Visiting Homemakers Association budget for family of four, woman at home, man on moderate work, for January 1963. Adjustment back to 1961 prices would mean our food budget was slightly better than this minimum, but apparently much below D.B.S. averages.



1 Shelter - Housing, fuel, light and water are actual ex-
2 penditures for a five-room bungalow in Scarboro
3 with a \$6,000 mortgage at $7\frac{1}{4}$ per cent.

4	home mortgage payments	\$588	
5	property taxes	290	
6	heating	115	
7	electricity	100	
8	water	30	
9	house repairs	<u>60</u>	
10	housing sub total	1,183	
11	household operation	90	
12	furnishings and equipment	<u>100</u>	<u>\$1,373</u>

13 Since housing items were far higher than D.B.S.
14 averages, other elements in shelter expenditures
15 were necessarily cut drastically below the D.B.S.
16 samples.

17 Clothing -- D.B.S. adjusted figure, of which approximately
18 \$50 went for children's clothing.

19 Transportation -- Assumed that family does not own a car,
20 which puts this expenditure item far below D.B.S.
21 averages. Figure used is made up as follows:

22	working man's local transportation	\$100	
23	other local transportation	50	
24	out-of-town transportation	100	
25	bicycle	<u>10</u>	
26			<u>\$260</u>

27 Medical and Personal -- Assume only half cost of Ontario
28 Hospital Service and prepaid medical plan paid
29 for by employee -- i.e. annual cost
30



1 $\frac{\$4.20 + \$8.50}{2} \times 12 = \$76)$

1.e. assumes no

2 medical care 50) major medical

3 dental care 25) expense borne

4 drugs 26) by family

5 personal 100)

6 \$277

7
8 Recreation and Education -- The drastic cut from D.B.S.

9 average for this income level indicates that

10 there actually are no funds for recreation, only

11 for education and newspapers.

12 Smokes and Drinks -- One large pack of cigarettes a day

13 costs \$167 a year, leaving \$33 for beer and

14 alcohol. If all spent for beer, this sum would

15 buy

16 $\frac{\$33.00}{2.07} \times 12 = 191 \text{ pints.}$

17 Gifts and Contributions -- D.B.S. adjusted figure, (union

18 dues shifted to this item from D.B.S. "other

19 group). At \$5 a month for union dues, this

20 would leave only \$61 a year for the whole family

21 for Xmas gifts and all other such expenditures.

22 Security -- Unemployment Insurance contributions \$49

23 Pension contribution @ 3% 119

24 Group Life insurance (\$2,000) + A.D.&D. 12

25 \$180

26 Other -- Balancing item in our budget; substantially less
27 than D.B.S. average.

28 Income and O.A.S. taxes --

29 Income from wages \$3,986

30 Deductions:



1	pension contrib. @3%	\$119	
2	basic exemption	1,000	
3	married exemption	1,000	
4	children exemption,		
5	2 x \$250	500	
6	standard deduction	<u>100</u>	<u>2,719</u>
7	Taxable income		1,267
8	Income tax. \$140 + 17% of \$267		<u>185</u>
9	Net income		<u>\$3,801</u>
10	(b) Family of four, man working full time, woman working		
11	<u>half time earning 40 per cent of husband's income</u>		
12	Annual	D.B.S. 1957	
13	<u>Expenditure</u>	<u>adjusted (1)</u>	
14	(see notes below)		
15	Food	\$1,491	\$1,491
16	Shelter	1,510	1,510
17	Clothing	512	512
18	Transportation	674	674
19	Medical and personal	329	407
20	Recreation and education	300	300
21	Smokes and drinks	221	221
22	Gifts and contributions	144	144
23	Security	204	248
24	Other	32	42
25	Income and O.A.S. Tax	<u>432</u>	<u>377</u>
26		<u>\$5,740</u>	<u>\$5,926</u>
27	(1) from D.B.S. "City Family Expenditure 1957" and un-		
28	published detailed income group breakdowns. This		
29	column contains Family Expenditure Pattern for 1957		
30	for income group \$5,000 - \$5,499 adjusted to 1961		



prices by appropriate consumer price indexes and
family size raised from 3.49 average to 4.

Food -- D.B.S. adjusted figure. One result of woman's
added income is substantial improvement in
family food budget.

Shelter -- D.B.S. adjusted figure. With same housing
expenditure as before, this makes a little more
realistic expenditure possible for household
operation of \$140, and for furnishings and
equipment \$187, although these are still well
below D.B.S. averages.

Clothing -- D.B.S. adjusted figure, of which approximately
\$74 went for children's clothing.

Transportation -- Assumed that family can now own a used
car, and that husband drives it to work; wife
uses public transportation.

car payments @ \$25 month	\$300
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car operation (6000 miles @ 5¢)	
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gasoline 300 gals @ 40¢	\$120
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vehicle license & op. permit	21
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repairs & other op. expense	<u>159</u>	300
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local public transportation	<u>74</u>	\$674
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This is D.B.S. adjusted figure, but arrived at
slightly differently.

Medical and Personal -- Same medical and dental expenditures
as before, \$52 additional personal expenditures
with woman working.

Recreation and Education -- Woman's added income makes
some recreation expenditures possible, but item
is still only two-thirds of D.B.S. average.



Smokes and Drinks -- D.B.S. adjusted figure. Increase of \$21 over budget (a), assumed to be spent on wines and spirits.

Gifts and Contributions -- D.B.S. adjusted figure (union dues shifted to this item from D.B.S. "other" group). Actually our figure contains \$45 more union dues than D.B.S. and the same amount less of other expenditures under this heading, i.e. assumed expenditure of \$60 for union dues and \$84 for gifts.

Security -- Woman's unemployment insurance contributions of \$24 added to previous security expenditure.

Other -- Balancing item in our budget.

Income and O.A.S. taxes --

	wife	husband
Income from wages	\$1,595	\$3,986
Deductions:		
pension contrib. @ 3%	119	
basic exemption 1,000	1,000	
children exemption		
2 x 250 =	500	
standard deduction 100	1,100	100
		1,719
Taxable income	495	2,267
Income Tax 14%	69	
\$310 + 20% of \$267		363
Net income	\$1,526	\$3,623



APPENDIX C

NOTES ON THE INCIDENCE AND CALCULATIONS OF VARIOUS
INDIRECT TAXES IN TYPICAL FAMILY EXPENDITURES

Corporate Tax

Assumption is that, under modern quasi-monopolistic conditions with demand stimulated by high-pressure advertising and consumer credit expansion, corporate price policy is largely investment return oriented, so corporate taxes are wholly shifted forward to consumers in the prices of goods and services. (See Appendix D for authoritative expressions of opinion on this question).

In 1961, total personal expenditures on consumer goods and services at market prices totalled \$24,253 millions and corporate taxes (federal and provincial) amounted to \$1,610 millions. (D.B.S. National Accounts 1961 pages 20 and 44). The average corporate tax content of each expenditure dollar was thus $\frac{1610}{24253}$ or 6.6 cents. Application of this ratio to our typical family expenditure pattern, excluding income tax, gives a corporate tax element of:

(a) 6.6% of \$3,969 - \$262

(b) 6.6% of \$5,317 - \$351

Sales Tax

(1) Federal tax of 11 per cent at manufacturer's level. Mark-up assumed to be 100 per cent, so effective rate of tax at retail level is $5\frac{1}{2}$ per cent on appropriate composite of taxable goods. Items assumed exempted from this tax in our budgets include:



	<u>Budget (a)</u>	<u>Budget (b)</u>
1		
2 Food - (total elimination is		
3 conservative since some		
4 items in this category		
5 bear the tax)	\$1,100	\$1,491
6 Shelter -- (elimination of all		
7 housing expense is also		
8 very conservative)	1,183	1,183
9 Transportation, local, public		
10 gas and oil	---	162
11 Medical and dental service and half		
12 personal expenditure	201	227
13 Recreation and education -- half	23	100
14 Union dues	60	60
15 Security -- all	180	204
16 Income tax	<u>185</u>	<u>432</u>
17 Total eliminations	3,082	3,933
18 Taxable remainder	<u>1,072</u>	<u>1,816</u>
19 effective tax rate	<u>5$\frac{1}{2}$%</u>	<u>5$\frac{1}{2}$%</u>
20 tax	<u>\$ 59</u>	<u>\$ 100</u>

21 (2) Ontario tax of 3 per cent at retail level,
22 although effective over part of 1961 only, was applied to
23 whole year's applicable expenditures to give significant
24 results for this study of tax incidence. Same eliminations
25 for non-taxable items as with federal tax except for
26 additional exemption of children's clothes, \$50 in budget
27 (a) and \$74 in budget (b) from D.B.S. averages.

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	<u>Budget (a)</u>	<u>Budget (b)</u>
1		
2	Taxable amount	\$1,022
3	tax rate	3%
4	tax	\$ 31
5		\$ 52

6 Customs Duties

7 Since it is not possible to determine the
8 dutiable import content of a particular expenditure pattern,
9 we have assumed that the burden of customs import duties
10 totalling \$515 millions in 1961 was spread proportionally
11 over all consumer goods purchased amounting to \$12,139
12 millions (D.B.S. National Accounts, 1961, pages 46 and 52).
13 Incidentally, Professor Goffman, in the Canadian Tax
14 Foundation study, spread customs import duties over total
15 consumption expenditures (see "The Burden of Canadian
16 Taxation", Canadian Tax Papers No. 29, July 1962, page 45).
17 The average customs import duty content of each expendi-
18 ture dollar on goods was thus $\frac{515}{12139}$ or 4.2 cents.
19 Eliminations of services from our budgets include:

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	<u>Budget (a)</u>	<u>Budget (b)</u>
1		
2 Property taxes and mortgage	\$ 878	\$ 878
3 payments		
4 Local public transportation	150	74
5 Medical, dental and personal		
6 services	201	227
7 Recreation and education - half	23	100
8 Union dues	60	60
9 Security -- all	180	204
10 Income tax	<u>185</u>	<u>432</u>
11 Total eliminations	\$1,677	\$1,975
12 Taxable remainder	<u>2,477</u>	<u>3,774</u>
13 Tax	<u>4.2%</u>	<u>4.2%</u>
14	<u>\$ 104</u>	<u>\$ 159</u>
15 <u>Excise Taxes and Duties</u>		
16	<u>Budget (a)</u>	<u>Budget (b)</u>
17 (1) on tobacco and alcohol		
18 Federal tax of 18¢ per pkg.		
19 cigarettes x 365	\$ 66	\$ 66
20 Federal tax of 4-3/4¢ per		
21 pint beer x 191	9	9
22 Federal and Provincial taxes on		
23 \$21 purchases of wines and		
24 spirits @ 80% (see article		
25 by Ronald Anderson in Globe		
26 & Mail 18 April/61)	<u> </u>	<u>16</u>
27 Total Tax	\$ 75	\$ 91
28		
29		
30		



1 (2) On household electrical goods, gifts, toilet
2 articles and cosmetics Federal Tax is 10 per cent or 15
3 per cent. It is assumed here at 10 per cent applying on
4 half of household furnishings and equipment, half personal
5 expenditures and all gifts to give a tax of \$16 in budget
6 (a) and \$25 in budget (b)

7 Gasoline and Motor Vehicle Taxes

8 No tax assumed in budget (a) since no car owned

9 In budget (a):

10	gasoline tax 13¢ x 300 gals. =	\$39
11	car registration	20
12	Operator's permit	<u>2</u>
13	Total	\$61

14 All other Indirect Taxes

15 D.B.S. National Accounts, 1961, show the remaining
16 miscellaneous taxes of federal, provincial and municipal
17 governments as amounting to (see page 46) --

18		<u>Millions</u>
19	federal misc. indirect taxes	15
20	provincial amusement taxes	24
21	provincial corporation capital and place of	
22	business taxes	33
23	provincial licences, fees and permits	
24	(excl. motor vehicle)	31
25	provincial taxes on natural resources	134
26	provincial miscellaneous indirect taxes	139
27	municipal miscellaneous indirect taxes	<u>205</u>
28	Total	\$581

29

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1 The total of these taxes has been spread on the
2 same basis as the corporate tax, i.e. assumed shifted to
3 consumers in prices of goods and services. On this basis
4 the average miscellaneous tax content of each expenditure
5 dollar was $\frac{581}{24253}$ or 2.4 cents. Application of this ratio
6 to our typical family expenditure patterns, excluding
7 income tax, gives a miscellaneous indirect tax element
8 of:

9 (a) 2.4% of \$3,969 = \$ 95

10 (b) 2.4% of \$5,317 = \$127

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APPENDIX D

A NOTE ON THE INCIDENCE OF CORPORATION TAXES

In "The Burden of Canadian Taxation" (Canadian Tax Papers No. 29, Canadian Tax Foundation, July, 1962) Prof. I. J. Goffman devotes an Appendix to Chapter IV to the incidence of corporate profits taxes. Relevant excerpts are quoted below:

" The position of economic theorists on this issue has changed markedly over the past twenty years. Traditionally, the argument was that a tax on 'profits' could not be shifted, but merely resulted in reducing the size of these 'profits'. Thus the tax was borne by the stockholder . . .

" But suppose there has been an increase in stock prices and an increase in equity financing -- a result contrary to what might be expected if the tax reduced profits. Further, suppose after-tax rates of return on equity investments had not fallen (at least not in proportion) despite the fact that tax rates had been increasing rapidly. This is precisely what did occur in the United States. Despite a quadrupling of the effective tax rate on corporate incomes -- from about 13% in the 1920's to over 50% in the 1950's -- the after-tax rate of return on net worth remained virtually constant -- 10.9% in 1927-29 to 9.7% in 1950-52 as was found by Lerner and Hendrickson. It follows then, that the ratio of profits-before-



1 tax to investment must have increased sharply.
2 This is even more remarkable in light of the
3 striking decline in interest rates during the
4 same period, which would lead one to expect a
5 reduction in the returns to equities, due to
6 the competitive forces in the money market.

7 " The evidence and the arguments for shifting
8 the corporate profits tax, at least a part of
9 it, are certainly impressive. The problem
10 which remains is the determination of the
11 relative portions to be shifted to the various
12 groups. Clearly stockholders do not bear all
13 of it. The part they do bear, however, has
14 been rather arbitrarily estimated in American
15 studies at around 50% of the total, with
16 consumers (and sometimes labour) sharing the
17 remaining half.

18 " In the absence of comparable statistical
19 information for Canada, the use of the American
20 findings is warranted. It is, therefore,
21 assumed here that at least the substance of
22 the arguments presented above is applicable,
23 and that part of ~~this~~ tax is shifted to consumers
24 and workers in the form of higher prices and
25 lower wages. The rest is borne by stockholders
26 and corporations in the form of lower dividends
27 and retained earnings . . . "

28 A former tax advisor to the Department of
29 Finance, presumably even better qualified than Professor
30 Goffman to evaluate the situation in Canada, was quoted



1 in the Globe and Mail of April 19, 1961 as follows:

2 " One of Canada's leading tax authorities,
3 Dr. A. Kenneth Eaton, Ottawa fiscal consultant,
4 told the legislation conference of the Canadian
5 Manufacturers' Association that the corporation
6 tax seems to be treated almost universally by
7 businessmen in the manner of the 11 per cent
8 sales tax which, as a matter of course, must
9 be added in for purposes of costing and pricing.

10 "' I cannot prove it,' he said, 'but I believe
11 that the burden of the corporate tax over the
12 past decade and a half has been mainly passed
13 on to consumers in the form of slightly higher
14 prices.

15 "' On balance over this period, there has
16 generally been a seller's market. Particularly
17 was this true in the immediate postwar period
18 when most business operated on unfilled orders.
19 Over all, it has been a period of business
20 conditions which have lent themselves quite
21 readily to slight upward adjustments in prices
22 sufficient to absorb or offset the tax on profits.'"

23 A former president of the Canadian Manufacturers'
24 Association was even more emphatic. W. H. Evans was
25 quoted in the Globe and Mail, 7 June 1960, as saying:

26 " Not one person in a thousand realizes that
27 a corporation, being impersonal, cannot bear
28 taxes. We should spare no effort to get it
29 across to the general public that these taxes --
30 all of them -- merely become a part of the



company's operating expenses and, as such, are inevitably reflected in the price paid by consumers."

Another past-president of the C.M.A. is of the same opinion regarding the incidence of the corporate tax. Ian F. McRae, past president of the C.M.A., and chairman of the Canadian General Electric Company, was quoted like this in the C.M.A.'s "Industrial Canada", December 1960, page 57:

"Corporation tax rates at their present level undoubtedly hurt the economy," Mr. McRae said, "They add to the cost of finished goods since they are included in the cost of all materials, parts and other goods a manufacturer buys, and have a pyramiding effect on prices."

Mr. McRae's company, Canadian General Electric, recognizes the same corporate tax policy. Here is an excerpt from an editorial in the company's house organ "Progress" for June, 1960:

"... Even a big company like CGE cannot bear taxes on its own. They merely become a part of a company's operating costs; and as such must be included in the prices paid by consumers."

Frank S. Capon, vice-president of Du Pont of Canada Limited, said:

"... It (the corporate tax) is regressive because it is hidden, adds to costs and becomes pyramided in our price structure".

(Financial Post, 16 June 1962)

Another statement in the same vein was made by Mr. Capon



1 at the conference of the Canadian Tax Foundation last
2 November. This was quoted in the Globe and Mail, 27
3 November 1962, as follows:

4 "Mr. Capon said that, among its other defects,
5 the corporate income tax lowered wages, raised
6 prices and made industry less competitive,
7 encouraged business to arrange its affairs to
8 take advantage of tax considerations rather than
9 to operate in the most efficient manner . . . "

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ANGUS. STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

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6 SALES TAX ON MARGARINE
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12 BRIEF
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14 Submitted to
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16 THE ROYAL COMMISSION ON TAXATION
17

18 by
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20 THE INSTITUTE OF EDIBLE OIL FOODS
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THE INSTITUTE OF EDIBLE OIL FOODS

This brief and our appearance before this Royal Commission on Taxation is on behalf of the Institute of Edible Oil Foods.

The Institute of Edible Oil Foods is a non-profit organization incorporated by Letters Patent dated 25th October 1954 and is the recognized national trade association and research organization of those industries concerned with

- (a) the manufacture of edible oil foods used by the consumer or in the manufacture of other consumer goods;
- (b) the growing of edible oil seeds;
- (c) edible seed crushing and oil extraction; and
- (d) the refining and processing of edible oils from the raw oils.

The edible oil products in which the Institute is concerned include shortenings, margarine and salad and cooking oils.

Membership in the Institute is open to any person, or organization or firm engaged in any phases of the above industries.

INTRODUCTION

This brief is directed at the anomaly and inequity under the present sales tax law and practice in respect to the sale of margarine to consumers.

Specifically, we shall attempt to demonstrate the fairness and desirability of adding margarine to the



list of foods exempt from sales tax provided for in the Excise Tax Act, Revised Statutes of Canada, Chapter 100, Part VI, sections 30 and 32 (1), Schedule III and amendments thereof (See Appendix A hereto).

A Sales Tax on margarine which is a basic nutritious and economical food, is objectionable because

- (1) it is a remnant of a Federal discrimination which existed illegally for 62 years against this food product;
- (2) it is a tax law for some provinces and not for all;
- (3) it makes it possible for the government to adopt a practice of rebating taxes on a basis not contemplated or authorized by any Statute; and
- (4) in the budget of Canada a tax on margarine is negligible as a source of national revenue compared to possible additions of farm income by a large production of oil seeds in Canada.

HISTORY

From 1886 until 1948, 62 years, there was in Canada a complete ban on the manufacture, sale and importation of margarine by reason of a Federal Statute which was Section 5 (a) of the Dairy Industry Act, more fully, and more accurately described as "an Act to protect the Dairy Industry."

For years we were the only country in the world



1 that had a complete ban on the manufacture, sale and
2 importation and use of margarine. For years one man,
3 the Honourable W. D. Euler, carried on a continuous and
4 often, apparently, hopeless fight for what he considered
5 a basic freedom, the freedom of choice in what we would
6 buy. He went into the House of Commons in 1917 and every
7 time that the Dairy Industry Act came up for revision,
8 he fought Section 5 (a). We had a total ban for 62
9 years, with two exceptions.

10 Although the Act was never repealed, during the
11 last part of the first World War and for sometime
12 thereafter, in all a period of 4 years, the operation of
13 that section of the Dairy Industry Act which prohibited
14 the manufacture and sale and use of margarine was
15 suspended. At a time when we needed all our energies,
16 the best that we had to give, the best in nutrition, it
17 was thought wise for us to eat margarine, and in both
18 wars, our Canadian soldiers, who were entitled to, and
19 in the main, had, the best of everything, ate margarine.
20 In the Second World War, by Army orders, margarine,
21 (yellow-coloured margarine) was issued to our Canadian
22 soldiers overseas.

23 When Mr. Euler went to the Senate in 1940, he
24 continued what sometimes seemed a one-man fight. He
25 introduced a Bill to repeal Section 5 (a). The Bill was
26 defeated. His Bill was again defeated in 1947; he tried
27 again in 1948; again it was defeated; but this time he
28 added a new argument. He argued that the Section was
29 invalid because it was an infringement of Provincial
30



1 rights under the B.N.A. Act. Upon this ground a
2 resolution to refer the question of the validity of this
3 Section to the Supreme Court of Canada was unanimously
4 passed. It was a record of defeat after defeat from
5 1917 to 1948. Although successive and frequent surveys
6 showed that the majority of Canadians wanted to be free
7 to buy this nutritious food, although every large daily
8 newspaper in Canada supported Mr. Euler's stand, and
9 although his fellow Senators agreed with him, they did
10 not vote with him. Why? Because of a powerful highly
11 organized and rich minority who held Governments
12 enthralled in spite of the repeated expressions of the
13 wishes of the majority of Canadians. It is a peculiar
14 and, one would like to think, a unique story of
15 political defiance and evasion of the wishes of the
16 majority. And that story has not ended.

17 When the validity of Section 5 (a) of the Dairy
18 Industry Act came before the Supreme Court of Canada,
19 for decision as to whether it was legislation within
20 the legal competence of the Dominion Parliament, after
21 a week's argument, a majority held that the prohibition
22 against margarine, which had been on the Statutes for
23 62 years and which Mr. Euler had fought for 51 years,
24 was invalid. The decision was appealed to the Privy
25 Council which affirmed the previous decision. One would
26 have thought that the way to right the injustice of this
27 62 year old illegal ban of the manufacture and sale on a
28 nutritious food would have been to exempt it from sales
29 tax immediately and from other legislative handicaps,
30



1 and to open it to free competition. This did not happen.
2 While the appeal to the Privy Council was still pending,
3 every Province legislated and the great similarity
4 of the legislation in every Province indicates a common
5 origin. Within a few months everyone of the nine
6 Provinces legislated on the subject. Quebec and Prince
7 Edward Island prohibited the sale and use of margarine
8 completely. All of the other Provinces imposed
9 restrictions of every kind to make margarine look
10 as unpalatable as possible and to discourage the
11 consumers from buying it.

12 On December 11, 1948, just three days before the
13 Supreme Court Judgment was brought down, Newfoundland
14 became a Province of Canada. The terms of the Union of
15 Newfoundland with Canada, Revised Statutes of Canada,
16 1952 Vol. VI (See Appendix B), set out that there shall
17 be no restrictions on the manufacture and sale of
18 margarine in Newfoundland, which means that it is sold
19 there in the pale yellow colour preferred by consumers.
20 Since at the moment of the Union Section 5 (a) of the
21 Dairy Industry Act had not been declared ultra vires
22 one might have thought that this provision in the Union
23 meant only that Section 5 (a) of the Dairy Industry Act
24 was not to apply to the tenth province. But this is
25 not what was said explicitly and the Government of Canada
26 has not interpreted it in this limited sense. It has
27 been interpreted to mean that no Sales Tax should apply
28 to Newfoundland in respect of margarine. Therefore, one
29 may assume that the Government itself regards a Sales Tax
30



1 on a basic food as a "restriction" on the sale of that
2 food. Margarine is the only basic food on which a Sales
3 Tax is imposed.

4 The Federal Sales Tax was first introduced in
5 Canada in 1947 and has been amended at practically every
6 Session of Parliament since. The scheme of the Act is
7 to impose a general Sales Tax and then exempt certain
8 items. From the beginning most basic food items have
9 been excluded. Had it been legal or had it been known
10 that it was legal to manufacture margarine in Canada
11 when the Act was first passed, it undoubtedly would also
12 have been exempted but now in the eyes of the butter
13 manufacturers the imposition of an 11% tax is regarded
14 as one of many other ways of fettering and restricting
15 the sale of a competitive product.

16 An examination of the list of food stuffs which
17 are exempt from Sales Tax (see Appendix A) shows that
18 most of them are really basic food items. They include
19 bread, butter, cheese, cream, eggs, honey, lard, rice,
20 salt, shortening, soups, sugar, yeast, gelatine, ice
21 cream, jams, jellies, marmalades, preserves, maple
22 syrup and corn syrup.

23 These are the main food items but by reason of
24 the generality of some of the descriptions one is
25 confronted with the ridiculous result that enables
26 Canadians to buy such luxury items as imported caviar
27 at \$10.29 for an 8-ounce tin, tinned alligator soup at
28 \$2.45 a tin, imported tinned frogs legs, turtle steaks,
29 Dover sole and Scottish grouse, all without Sales Tax,
30 whilst the millions of consumers of a basic nutritious



1 and necessary food, margarine, are required to pay an
2 11% Sales Tax which amounts to 2¢ or 3¢ per lb. Many
3 of these consumers are people with large families, old-
4 age and other pensioners, - in general - people with the
5 least income, as well as those persons whose doctors
6 prescribe margarine.

7 The method by which Newfoundland consumers are
8 exempt from paying the Sales Tax on margarine, which
9 they would regard as a restriction on their use of it,
10 is unique. The procedure followed is this: The
11 manufacturers of margarine pay Sales Tax on their total
12 production because there is no word in the Excise Tax
13 Act of this favoured treatment of Newfoundland residents.
14 Then the margarine manufacturers, at the request of the
15 Government, make a return of all the margarine sold in
16 Newfoundland, supported by adequate evidence, and then
17 in course of time the Government by Order-in-Council
18 rebates to the manufacturers the Sales Tax which they
19 have paid in respect of margarine sold to Newfoundland
20 customers. This has been going on for fourteen years.

21 It is estimated that the revenue produced by Sales
22 Tax on margarine in the nine Provinces amounts annually
23 to a sum between 3 and 4 million dollars.

24 ARGUMENTS

25 The imposition of a tax on any one item of basic
26 food while others go free is in our submission not
27 essentially, nor "in its true intent and purpose",
28 taxation but discrimination of the most vicious type
29 against the consumers and manufacturers of this
30



1 particular food item. If this were a valid precedent
2 there would be nothing to prevent the Federal Government
3 making an agreement with any or all of the Provinces
4 to exempt certain products within that particular
5 Province from the burden of taxes imposed on the rest
6 of Canada and then even without disclosing the procedure
7 in any Act of Parliament, rebating to a particular
8 industry in a selected Province, the Sales Tax apparently
9 imposed on this item. For example, there would be
10 nothing to prevent the Federal Government from including
11 in one of the tax agreements which have become usual
12 between the Provinces and the Federal Government, an
13 agreement that people in Ontario, for example, should
14 not have to pay a Sales Tax on cigarettes, then, without
15 any change in the Act, rebating the Sales Tax to the
16 wholesale dealers or manufacturers of cigarettes. If
17 this were to be done everyone would raise a hue and cry
18 at such unfair and dictatorial conduct. No one would
19 say that this is a matter affecting only a single
20 industry and therefore unimportant. Everyone would
21 agree that such a law and such a practice are matters of
22 the deepest concern to all Canadians and that the
23 discrimination is not only national in scope but it is
24 an unwarranted control of the economy which endangers
25 every branch of commerce and free enterprise. And yet
26 this is what is being done in the case of margarine.

27 The fact that the 11% Sales Tax on a basic food
28 of high and constant nutritious value is only one of
29 many restrictions put upon the people of Canada in respect
30



1 of their free choice to buy margarine is not a reason for
2 continuing the Tax and the unprecedented practice of
3 applying a Tax in nine provinces but not in the tenth.

4 If it should be argued that a Sales Tax on
5 margarine is necessary as a protection for the Dairy
6 Industry, it is well to bear in mind all the other
7 protection which has been afforded to the Dairy Industry
8 by guaranteed prices since 1957 and by consumer subsidies
9 since June 1962, the cost of which are borne by all
10 Canadian taxpayers whether or not they can afford to or
11 do eat butter.

12 The 11% Sales Tax is insignificant in the total
13 economy of Canada but 2¢ or 3¢ on each pound of
14 margarine, which is what 11% amounts to, is a substantial
15 amount in the budget of large families and those living
16 on low incomes.

17 Any curb on the market for edible oil seeds,
18 whether by a taxation or otherwise, is not only important
19 to the new but growing edible oil industries, but affects
20 what could be a very important branch of agriculture.

21 Historically oil seeds could only be grown in
22 tropical climates but since World II our brilliant
23 agricultural scientists have developed admirable varieties
24 of oil seeds which can be grown in our moderate Northern
25 climate such as soy bean and rape seed. There are not
26 nearly enough of these fine cash crops. For example, the
27 acreage of soy beans grown in southwest Ontario is about
28 what it was ten years ago. There is undoubtedly a market
29 both domestic and export, for many times the acreage of
30 oil seed crops in Canada.



1 The development of edible oil seed agriculture
2 offers an opportunity such as there was for those who
3 started to grow tobacco 21 years ago.

4 This Commission is surely concerned with
5 restrictions on an end product of an important agricultural
6 crop - edible oil seed, which is in short supply and has
7 to be supplemented by large imports.

8 But transcending the important of this discrimina-
9 tion in terms of agriculture there is the interest of
10 the consumers, - predominantly those in the low income
11 bracket for many of whom the choice is margarine or no
12 table fat.

13 Even more important, we submit, is the principle
14 involved in government discrimination by taxation
15 against one item of basic food in relation to other foods
16 and the practice of carrying out this discrimination by
17 "under-the-counter" methods as well as the unfair,
18 unprecedented and perhaps illegal levy of a tax on the
19 residents of some provinces in Canada and not on the
20 residents of another part of Canada.

21 SUBMISSION:

22 We therefore submit that the Excise Tax Act ought
23 to be amended by including the word "margarine" under the
24 heading "Foodstuffs" in Schedule VI.

25
26
27 TORONTO

28 March 29, 1963.
29
30



INSTITUTE OF EDIBLE OILS

SALES TAX ON MARGARINE

APPENDIX "A"

"The Excise Tax Act, Revised Statutes of
Canada, Ch. 100, Part VI, Sections 30
and 32 (1).

30. (1) There shall be imposed, levied and collected
a consumption or sales tax of eight per cent on the sale
price of all goods

(a) produced or manufactured in Canada

(1) payable, in any case other than a case
mentioned in subparagraph (11), by the
producer or manufacturer at the time
when the goods are delivered to the
purchaser or at the time when the
property in the goods passes, whichever
is the earlier."

"32. (1) The tax imposed by section 30 does not apply
to the sale or importation of the articles mentioned in
Schedule III.

"SCHEDULE III.

FOODSTUFFS

Barley; Bread; Butter; Cheese; Cream; Eggs, Egg
albumen and Egg yolks; Glucose; Honey; Ice; Lard; Rice;
Salt; Soups; Split Peas; Sugar; Yeast; Yogurt;



- 1 Bakers' cakes and pies including biscuits, cookies
- 2 or other similar articles;
- 3 Cereal breakfast foods not including beverages;
- 4 Fish and edible products thereof;
- 5 Flour including pastry, cake, biscuit, and similar
- 6 mixes;
- 7 Foods prepared and sold exclusively for feeding
- 8 infants;
- 9 Fruit, fresh, canned, frozen, dried or evaporated;
- 10 Grain frits and meals;
- 11 Ice cream; drinks prepared from fresh mild,
- 12 prepared whipping cream;
- 13 Jams, jellies, marmalades, and preserves;
- 14 Lactose;
- 15 Malt syrup, except when sold for beverage purposes;
- 16 Maple syrup, corn syrup, table syrups, molasses,
- 17 and materials to be used exclusively in the manufacture
- 18 thereof;
- 19 Meats and poultry, fresh, cooked, canned, frozen,
- 20 smoked or dried;
- 21 Milk, including buttermilk, condensed milk,
- 22 evaporated milk, and powdered milk;
- 23 Peanut Butter and Shortening and materials for use
- 24 exclusively in the manufacture thereof;
- 25 Spaghetti, macaroni, and vermicelli;
- 26 Vegetables, fresh, canned, frozen or dehydrated,
- 27 not including pickles, relishes, catsup, sauces, olives,
- 28 horseradish, mustard and similar goods;
- 29 Vegetable juices, fruit juices which consist of at
- 30 least ninety-five per cent of pure juice of the fruit;"



APPENDIX "B"

" THE BRITISH NORTH AMERICA ACT, 1949,

12-13 George VI, c. 22

An Act to confirm and give effect to
Terms of Union agreed between Canada
and Newfoundland.

WHEREAS by means of a referendum the people of
Newfoundland have by a majority signified their
wish to enter into confederation with Canada;
AND WHEREAS the Agreement containing Terms of
Union between Canada and Newfoundland set out in the
Schedule to this Act has been duly approved by the
Parliament of Canada and by the Government of Newfoundland;

AND WHEREAS Canada has requested, and consented to;
the enactment of an Act of the Parliament of the United
Kingdom to confirm and give effect to the said Agreement,
and the Senate and House of Commons of Canada in
Parliament assembled have submitted an address to His
Majesty praying that His Majesty may graciously be pleased
to cause a Bill to be laid before the Parliament of the
United Kingdom for that purpose;

Be it therefore enacted by the King's Most
Excellent Majesty, by and with the advice and consent of
the Lords Spiritual and Temporal, and Commons, in this
present parliament assembled, and by the authority of
the same, as follows:-

1. The Agreement containing Terms of Union between
Canada and Newfoundland set out in the Schedule to this
Act is hereby confirmed and shall have the force of law



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15.

1 notwithstanding anything in the British North America
2 Acts, 1867 to 1946."
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SCHEDULE

TERMS OF UNION

of

NEWFOUNDLAND WITH CANADA.

MEMORANDUM OF AGREEMENT ENTERED INTO ON THE ELEVENTH DAY
OF DECEMBER, 1948, BETWEEN CANADA AND NEWFOUNDLAND. "

.....

"TERMS OF UNION

Union.

1. On, from, and after the coming into force of
these Terms (hereinafter referred to as the
date of Union) Newfoundland shall form part of
Canada and shall be a province thereof to be
called and known as the Province of Newfoundland."

.....

Oleomargarine.

"46. (1) Oleomargarine or margarine may be
manufactured or sold in the Province of Newfoundland
after the date of the Union and the Parliament of Canada
shall not prohibit or restrict such manufacture or sale
except at the request of the Legislature of the Province
of Newfoundland, but nothing in this Term shall affect
the power of the Parliament of Canada to require compliance
with standards of quality applicable throughout Canada,

(2) Unless the Parliament of Canada otherwise
provides or unless the sale and manufacture in, and the
interprovincial movement between, all provinces of Canada
other than Newfoundland, of oleomargarine and margarine,



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17.

1 is lawful under the laws of Canada, oleomargarine or
2 margarine shall not be sent, shipped, brought, or
3 carried from the Province of Newfoundland into any
4 other province of Canada."
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ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

1 MEMORANDUM TO

2 ROYAL COMMISSION ON TAXATION

3 SUBMITTED BY HIRAM WALKER-GOODERHAM & WORTS LIMITED

4 WALKERVILLE, ONTARIO

5
6 1. Effective December 20, 1960 the Canadian Govern-
7 ment levied a 15% tax on dividends paid to non-resident
8 corporations by Canadian subsidiary corporations and there-
9 by terminated the arrangement under Article XI of the
10 Canada-U.S. Reciprocal Tax Convention whereby the tax on
11 such dividends and on dividends received by Canadian
12 corporations from United States subsidiaries was limited
13 to 5%. Since that time dividends received by Canadian
14 corporations from United States subsidiaries have been
15 subject to a 15% withholding tax.

16 2. Our company derives a substantial amount of
17 dividend income from subsidiaries in the United States
18 and we are directly affected by this change in the with-
19 holding tax rates. In our view the increase in withhold-
20 ing tax rates is undesirable, not only as it affects our
21 company, but also in relation to the Canadian economy as
22 a whole.

23 3. Our United States subsidiaries pay the full
24 United States tax on the profits earned in that country,
25 and, as you know, the maximum United States federal income
26 tax rate thereon at the present time is 52%. This is a
27 very high rate of tax and the further withholding tax of
28 15% on dividends brought back to Canada seriously reduces
29 the return on our investment. Furthermore, we look to
30 these dividends as a source of funds for further expansion



1 in Canada and abroad and the 15% United States withholding
2 tax seriously reduces the amount of funds available for
3 these purposes.

4 4. We feel that the development of Canadian busin-
5 ess abroad is desirable, not only as a direct source of
6 revenue to Canadian shareholders in the form of dividends,
7 but indirectly by increasing the sales of Canadian goods
8 and services abroad and providing greater volume for
9 Canadian operations. Rather than discourage such activi-
10 ties by high rates of withholding tax, it would be desir-
11 able to provide some incentive to Canadian firms to
12 develop such business. In this connection a reduced rate
13 of withholding tax for dividends would reduce the tax
14 burden on risk capital engaged in such activities.

15 5. It is recognized that a reduction of the United
16 States withholding tax rate could only be obtained by
17 reciprocal arrangements with that country and this would
18 involve a reduction in the Canadian rate of withholding
19 tax on dividends paid by Canadian subsidiaries to parent
20 companies in the United States.

21 6. It may appear that such a reduction would give
22 rise to a substantial loss of revenue to the Canadian
23 Government, but this is not necessarily true.

24 (a) Since the Canadian corporate income tax rates
25 are practically the same as those of the United
26 States, in many cases the Canadian tax withheld
27 on dividends paid from earnings of Canadian
28 subsidiaries cannot be recovered as a foreign
29 tax credit by the United States parent companies.
30 Accordingly, a decrease in the withholding rate



1 from 15% to 5% would encourage United States
2 corporations to expand the operations of their
3 Canadian subsidiaries, especially with regard
4 to foreign markets which could be supplied by
5 either the Canadian subsidiaries or the United
6 States parents. The increase in the earnings
7 of the Canadian subsidiaries would result in
8 increased tax revenue to the Canadian government.

9 (b) Furthermore, the increased withholding tax on
10 dividends will act as a deterrent to further
11 investment in Canada, and this will result in
12 a decrease in capital expenditures, fewer
13 employment opportunities and greater pressure
14 on foreign exchange reserves.

15 (c) In the case of tax exempt organizations such as
16 pension funds, university endowment funds,
17 charitable organizations etc., the increase in
18 the rate of withholding tax from 5% to 15%
19 causes a decrease in income by the full amount
20 of the extra tax. This places a heavy penalty
21 on investments by such organizations in Canada
22 in future years.

23 (d) Generally, the effective rate of tax on corpora-
24 tion profits earned in Canada in the province
25 of Ontario and paid out as dividends to non-
26 resident shareholders is approximately 59%
27 at the present time. In many other countries
28 the combined tax on corporation profits and on
29 dividends paid to non-residents amount to less
30 than 59%. In these circumstances there will be



1 a tendency for investors to seek opportunities
2 and make investments in countries other than
3 Canada.

4 (e) Since dividends received by Canadian companies
5 from United States subsidiaries are not subject
6 to Canadian income tax, the withholding tax
7 cannot be recovered as a foreign tax credit.
8 Therefore, if the withholding rate were reduced
9 from 15% to 5% more funds would be available
10 to the Canadian parent companies for capital
11 expansion in Canada and payment of higher
12 dividends to shareholders. Higher earnings of
13 Canadian parent companies and increased dividends
14 received by shareholders would result in in-
15 creased tax revenues to the Canadian government.

16 7. Generally speaking we think that a lower rate of
17 withholding tax on dividends between the United States
18 and Canada would be of substantial benefit in increasing
19 trade and employment in both countries and would facilitate
20 the movement of capital between the two countries. It
21 would also contribute to the better understanding and
22 improved relations between the two countries.

23 8. We should appreciate your assistance in reducing
24 the withholding tax on dividends between Canada and the
25 United States at least to the rate of 5% previously
26 enforced.

27 Respectfully submitted.

28 March 28, 1963
29
30



SUBMISSION

TO

THE ROYAL COMMISSION ON TAXATION

BY

THE RUBBER ASSOCIATION OF CANADA

TORONTO, APRIL 12TH, 1963



INTRODUCTION

Membership of the Rubber Association of Canada:

1. The Rubber Association of Canada is the national trade association of the rubber products manufacturing industry in Canada. Its membership, listed in Appendix I, includes most of the leading companies in all branches of rubber manufacturing and collectively accounts for approximately 90% of the total employment and total production in the Canadian industry.

Growth and Present Stature of the Rubber Products Industry:

2. On the basis of value of production, the rubber products industry ranks amongst the fifteen leading manufacturing industries of Canada. A measure of its growth during the post World War II period and its present stature in the Canadian economy may be obtained from Appendix II, Table 1. It will be noted that the total value of its production rose almost without interruption from \$159,408,000 in 1946 to a peak of \$355,584,000 in 1956, since when it has fluctuated between \$308,383,000 in 1958 and \$347,680,000 in 1959, falling to \$323,053,000 in 1960, the latest year for which statistics are available.

Range of Products Manufactured:

3. The range of products made by the rubber industry is extremely diversified and extends over literally thousands of individual items. (See Appendix II, Table 2). It includes a complete range of tires and



1 tubes of practically every size and type in use in the
2 Canadian market; one of the world's most extensive
3 ranges of rubber-soled utility and casual shoes and
4 waterproof footwear; and an almost unlimited range of
5 other products for industrial, household and personal
6 use such as:- waterproof clothing, coated fabrics, heels,
7 soles and soling materials, belts and belting, hose and
8 tubing, packing, gaskets and washers, rubber thread,
9 insulating tapes, rubber-covered rolls, tank and pipe
10 coverings and linings, mats and matting, retread rubber
11 and tire repair materials, cements and adhesives, battery
12 boxes and parts, druggists and medical sundries, floor
13 tiles, rug and carpet underlays, foamed rubber and
14 foamed plastic slabs and pads for mattresses and up-
15 holstery, packaging films, stationery goods, play balls,
16 toys and novelties and innumerable moulded and extruded
17 component parts for all kinds of machines and appliances.

18 4. In view of the great variety of types of goods
19 which it produces for so many widely differing industrial
20 and consumer enduses, it is hardly necessary to add that;
21 in selling its products, the rubber industry employs
22 virtually every method and channel of distribution known
23 to the Canadian market.

24
25 Canadian Exports of Rubber Products:

26 5. Prior to World War II the Canadian rubber
27 industry enjoyed a substantial world-wide export trade
28 which annually, on the average, absorbed about one-
29 quarter of its total production.

30 6. Commercial export trade practically ceased



1 during the war, but when hostilities ended the rubber
2 industry promptly resumed its export activities and by
3 1948 had re-built its export volume to \$33,008,000, about
4 double the value of exports in an average pre-war year.
5 However, with the wide-spread currency devaluations abroad
6 which took place in 1949, the volume of export trade fell
7 abruptly, and with a few temporary up-turns continued to
8 decline to a low of \$7,295,000 in 1961. The devaluation
9 of the Canadian dollar in 1962 sparked a recovery to
10 \$11,174,000 in that year. (See Appendix II, Table 3).

11

12 Imports of Rubber Products into Canada

13 7. The Canadian rubber industry has always been
14 subject to a measure of import competition, but in the
15 years preceding World War II and in the immediate post-
16 war years, the volume of import competition was moderate
17 and, on the whole, of little concern to the Canadian
18 manufacturers. Since 1948, however, a decided upward
19 trend in the volume of imports has prevailed and raised
20 the total value of imports from \$10,866,000 in 1948 to
21 \$43,639,000 in 1961. In 1962, despite the devaluation
22 of the Canadian dollar and the imposition of tariff
23 surcharges on a wide range of rubber products, the value
24 of imports continued to rise to \$46,032,000 in the eleven
25 months January-November. (See Appendix II, Table 4.)

26 8. A comparison of these figures with the figures
27 on value of production in the Canadian Industry
28 (Appendix II, Table 1) shows that in the post-war period
29 imports have been supplying a steadily increasing per-
30 centage of the total Canadian demand for rubber products.



1 The bulk of the imports consist of goods directly
2 competitive with but lower in price than like goods made
3 by the Canadian industry.

4
5 THE CHALLENGE TO CANADIAN SECONDARY INDUSTRY

6 9. The solution to the two most serious problems
7 with which the Canadian economy is plagued, unemployment
8 and the unfavourable balance of international payments,
9 is commonly held to lie in an acceleration of expansion
10 in secondary manufacturing.

11 10. Government exhorts secondary industries, such
12 as the rubber products industry, to improve productivity
13 and reduce costs, to diversify and expand, and to be more
14 aggressive in combatting import competition and in
15 developing export trade.

16 11. The extent to which secondary industries will
17 be able to make an effective response to these exhorta-
18 tions depends in no small measure upon the effect of
19 taxation on costs of production and distribution and
20 upon the accumulation of savings and the use to which
21 savings are put. It is fitting, therefore, that the
22 Government has appointed a Royal Commission to examine
23 the existing tax structure and to recommend such changes
24 as seem necessary to promote the industrial expansion
25 required to overcome the problems with which the economy
26 is beset.

27
28 DIRECT Vs. INDIRECT TAXES

29 12. In his Budget Speech of April 10th, 1962, the
30 Minister of Finance forecast revenues of \$5,780 million



1 of which personal income tax accounted for 30.8%,
2 corporation income tax for 20.2% and sales tax for 14.1%.

3 13. This Association does not propose to argue that
4 the total sum of Government taxation revenues could or
5 should be appreciably reduced. Indeed we recognize that
6 in this day and age Government revenue requirements are
7 more likely to rise and continue to rise. We suggest,
8 however, that a change in the percentages of the total
9 revenue derived from the various major taxes would
10 create a climate much more favourable to business enter-
11 prise and economic expansion.

12 14. A comparison of the "mix" of the total revenues
13 of Central Governments in Canada and in the more import-
14 ant highly industrialized countries of the free world
15 is illuminating. It will be seen from Appendix III that
16 with the single exception of the United States, whose
17 economy is incomparably stronger and more mature than
18 the Canadian economy, Canada derives a higher percentage
19 of total Central Government revenue from direct taxes
20 (mainly personal and corporate income taxes) and a lower
21 percentage from indirect taxes (mainly sales taxes in
22 one form or another) than any of its chief competitors
23 in world industry. In our opinion it is highly signifi-
24 cant that France and other countries of Western Europe
25 whose dynamic economic growth has brought them unpreceden-
26 ted prosperity rely heavily on indirect taxation whereas
27 Canada, the United States and the United Kingdom, whose
28 economic growth has lagged behind, collect the larger
29 part of their tax revenues through direct taxes. It may
30 be added that the popular myth that the French do not



1 pay taxes is far from the truth. In fact there is hardly
2 an advanced country in which the citizens are more
3 heavily taxed and the amazing economic growth that France
4 has enjoyed has been achieved in spite of a heavy total
5 tax burden.

6 15. In the light of the above, we submit that a
7 reduction in personal and corporate income taxes and a
8 corresponding increase in the sales tax would help to
9 restore the vigour and health of the Canadian economy.

10 16. In support of this contention, we wish to make
11 the following points:

12 (1) Income taxes, whether personal or corporate,
13 inflate the selling prices of goods produced
14 in Canada, whether for the domestic market
15 or for export. If competition permits,
16 corporations mark up prices to provide a
17 profit "after taxes". Similarly, trade unions
18 bargain for increases in "take home" pay.
19 Thus the relatively heavy income taxes imposed
20 by Canada tend to make prices of Canadian goods
21 non-competitive in export markets and, in
22 comparison with imported goods, in the domestic
23 market.

24 In export markets and over a wide range
25 of goods subject to severe import competition
26 in the domestic market, it may not be possible
27 to pass these tax costs on to the consumer,
28 either in full or even in part, and where this
29 occurs the profits of Canadian industry suffer.

30 Sales taxes likewise raise selling prices



1 but do not apply to goods for export and in
2 the domestic market can be applied equally to
3 Canadian and imported goods.

4 (2) The corporate income tax subsidizes unprofit-
5 able producers at the expense of profitable
6 producers since only the latter pay the tax.
7 In the long run, in a free enterprise economy,
8 profitability is the measure of productivity.
9 Accordingly, the corporate income tax tends
10 to lower the average level of productivity in
11 Canadian industry.

12 Sales taxes are neutral in this respect
13 bearing with equal weight on the highly
14 productive and the less productive enterprise.

15 (3) Income taxes have a depressive effect upon
16 the ability and the incentive to accumulate
17 savings for investment in Canadian industry.
18 This is particularly so for the individual
19 whose investment income is subject to double
20 taxation, first through the corporation income
21 tax and then, at steeply graduated rates,
22 through the personal income tax.

23 Sales taxes have a much lighter impact on
24 the savings of the community and on incentives
25 to undertake business expansion because (a)
26 they apply only to consumption expenditures
27 and the portion of income saved is not subject
28 to tax, (b) the rates are not progressive
29 relative to income and (c) to a greater extent
30 than income tax, they are borne by persons who



1 habitually spend a high percentage of their
2 incomes.

3
4 THE FEDERAL SALES TAX

5 17. In the above we have discussed the relative
6 effects of income taxes and sales taxes upon the economy
7 in general terms and have given reasons why we favour
8 a tax structure that relies more heavily upon sales taxes
9 than upon income taxes to raise the revenues required
10 by Government.

11 18. However, the present Federal Sales Tax is much
12 too narrowly based and much too inequitable in its
13 application to provide a suitable basis for altering the
14 Federal tax structure from an income tax oriented
15 structure to a sales tax oriented structure. If income
16 tax rates were to be appreciably reduced, the sales tax
17 rates under the existing Federal sales tax would have
18 to be raised to excessive heights to produce the same
19 total tax revenue and the discriminatory effects of the
20 present sales tax would be aggravated to the extent of
21 causing serious dislocation of the economy.

22 19. We submit that the Federal sales tax should be
23 revised along the following lines:

24 (1) The tax should be applied to the sales of all
25 services including professional services.

26 Since the Federal sales tax was introduced
27 in 1920, the service industries have become a
28 very substantial sector and in recent years
29 the fastest growing sector in the Canadian
30 economy. There is no good reason why the



1 consumption of services should be subsidized
2 by exemption from taxation applied to the
3 consumption of goods.

4 (2) Exemptions from the tax as it applies to
5 goods should be limited to producers' goods
6 and the basic necessities of life.

7 The present lengthy list has grown in a
8 haphazard manner as Government has decided
9 from time to time to aid various industries by
10 granting them relief from the tax. This has
11 artificially stimulated growth in the favoured
12 industries at the expense of other and possibly
13 more productive industries not so favoured.
14 In addition, the complexity of the present
15 list of exemptions adds greatly to the cost of
16 administering the tax.

17 We suggest that the list of exemptions
18 adopted by Ontario when establishing its sales
19 tax provides a suitable model for a revision
20 of the Federal list.

21 (3) The tax should be levied at the retail level
22 on both domestic and imported goods.

23 When the sales tax is levied at the
24 manufacturers level it becomes extremely
25 difficult, if not impossible, to obtain equality
26 of treatment of the many various distribution
27 channels developed in the Canadian market.
28 Two major sources of inequality in the appli-
29 cation of the tax are (a) the backward
30 integration of large retailers who assume the



1 functions normally performed by wholesalers
2 and buy at relatively low prices from the
3 manufacturers and (b) the treatment of private
4 brand merchandise manufactured under contract
5 for large retail firms which assume all market-
6 ing functions and therefore buy from the
7 manufacturer at what are virtually factory door
8 prices.

9 Both of these distribution methods and
10 techniques enjoy a considerable tax advantage
11 over traditional distribution methods under the
12 present sales tax levied at the manufacturer's
13 level whereas a retail form of sales tax,
14 applicable to the final selling price to the
15 consumer, eliminates discrimination amongst the
16 various forms and techniques of production and
17 distribution.

18 Application of the sales tax at the retail
19 level would also eliminate the tax advantage
20 which imported goods enjoy over domestic goods
21 under the present Federal sales tax.

22 Further, while a manufacturer's sales tax
23 is hidden in tax-included prices to the consumer,
24 a retail sales tax is in the open for all to
25 see. Thus, with every purchase, the citizen
26 is reminded he is helping to pay out of his
27 own pocket for the services that the Government
28 provides.
29
30



1 CO-ORDINATION OF FEDERAL AND PROVINCIAL SALES TAXES

2 20. The principal argument against the retail form
3 of sales tax is that it is difficult and costly to
4 collect because of the multiplicity of small businesses
5 involved in collection. This argument has lost most of
6 its force with the adoption of retail sales taxes in all
7 provinces except Alberta and Manitoba. In fact, the
8 adoption of a retail form of sales tax by the Federal
9 Government could lead to a co-ordination of Federal and
10 Provincial sales taxes which would reduce the total costs
11 of collecting sales taxes imposed by the two levels of
12 Government.

13 21. Co-ordination of Federal and Provincial sales
14 taxes was discussed by Professor John Due of the Univer-
15 sity of Illinois, in the course of an address delivered
16 to the 1962 Tax Conference of the Canadian Tax Foundation,
17 from which we quote the following relevant extract.

18 " the duplicate use of the (sales) tax
19 by federal and provincial governments requires
20 excessive use of resources for administration
21 and for compliance on the part of the taxpayers.
22 Most firms filing federal returns also file
23 provincial returns, often in several provinces.
24 Duplicating tax audit staffs are required.
25 The provinces have substantial difficulty in
26 enforcing tax on inter-provincial sales, and
27 thus this type of transaction is favoured.
28 The situation would be improved in terms of
29 economic growth if the provinces would bring
30 their producers' goods exemptions more closely



1 in line with those of the federal tax as
2 Ontario did when establishing its tax. But
3 much greater efficiency in the operation of
4 the taxes would be possible if a single levy
5 could be substituted for the present system.
6 The proposal sometimes advanced for the
7 provinces to repeal their taxes and receive
8 instead a share of an increased federal tax
9 at the manufacturing level would not only re-
10 duce their financial autonomy -- an issue on
11 which there has been extensive discussion in
12 other fields of taxation -- but also would
13 increase the burden on the relatively less
14 satisfactory manufacturers' tax. Obviously
15 there is no possibility of the federal govern-
16 ment accepting the alternative of receiving
17 a share of increased provincial taxes, and
18 even so, the interprovincial problems would
19 remain. The final possibility, that of transfer
20 of the federal tax to the retail level and
21 collection of a tax supplement for those
22 provinces which desire it, has perhaps the
23 greatest merit. The advantages of the retail
24 form of tax would be retained; the argument
25 that the retail tax is more difficult to
26 collect than the manufacturers' tax has little
27 merit when it is already in use in eight
28 provinces. The provincial financial autonomy
29 problem would not be avoided entirely, but
30 would be materially reduced, since the tax



1 supplement system, unworkable with the
2 manufacturers' tax, could be employed. Thus
3 the provinces would have the choice of use of
4 the supplement, and the rate. The problem of
5 tax on interprovincial sales would be reduced
6 greatly relative to the present system."

7
8 SUMMARY

9 22. In summary of all of the above, the Rubber
10 Association of Canada urges the Royal Commission on
11 Taxation to recommend to Government:

12 (1) That the percentages of total revenues collected
13 through taxes on corporate income tax and
14 personal income tax be reduced and the percen-
15 tage collected through sales tax correspondingly
16 increased,

17 (2) That the sales tax be converted from a
18 manufacturer's sales tax to a retail sales tax,

19 (3) That the retail sales tax apply to services
20 as well as goods, including imported goods, and

21 (4) That the exemptions from the sales tax be
22 strictly limited to expenditures on basic
23 necessities of life and producers' goods.

24 All of which is respectfully submitted.

25 THE RUBBER ASSOCIATION OF CANADA

26 GREIG B. SMITH

27 Manager and Secretary
28
29
30



APPENDIX I

FIRM MEMBERS OF THE RUBBER ASSOCIATION OF CANADA

The Action Rubber Limited, Acton Vale, P.Q.

American Biltrite Rubber Co. (Canada) Limited,

Sherbrooke, P.Q.

American Wringer Company, Farnham, P.Q.

B. F. Goodrich Canada Limited, Kitchener, Ontario.

Cat's Paw-Holtite Rubber Co. of Canada Limited,

Drummondville, P.Q.

Dominion Rubber Co. Limited, Montreal, P.Q.

Dunlop Canada Limited, Toronto, Ontario.

Firestone Tire & Rubber Co. of Canada Limited,

Hamilton, Ontario.

General Tire & Rubber Co. of Canada Limited, Leaside,

Ontario.

Goodyear Tire & Rubber Co. of Canada Limited, New Toronto,

Ontario.

G. L. Griffith & Sons, Limited, Stratford, Ontario.

Kaufman Rubber Co. Limited, Kitchener, Ontario.

Mansfield Rubber (Canada) Limited, Barrie, Ontario.

The Miner Rubber Co. Limited, Granby, P.Q.

Raybestos-Manhattan (Canada) Limited, Peterborough,

Ontario.

St. Lawrence Rubber Co., Farnham, P.Q.

Seiberling Rubber Co. of Canada Limited, Toronto, Ontario.

Stedfast Rubber Co. (Canada) Limited, Granby, P.Q.

Viceroy Manufacturing Co. Limited, Toronto, Ontario.



APPENDIX II

TABLE 4

IMPORTS OF RUBBER MANUFACTURES INTO CANADA*

(Source: Trade of Canada -- Dominion Bureau of Statistics)

<u>YEAR</u>	<u>\$,000</u>
1946	10,607
1948	10,866
1950	14,543
1952	22,964
1954	21,747
1956	36,974
1957	33,203
1958	35,636
1959	42,209
1960	43,523
1961	43,639
1962 (11 months Jan.-Nov.	46,932

* Excludes latex, crude rubber, reclaimed rubber and
acrap rubber.



APPENDIX II - TABLE 1
PRINCIPAL STATISTICS OF THE RUBBER PRODUCTS INDUSTRY

(Source: Annual Reports on the Rubber Products Industry - Dominion Bureau of Statistics)

Year	Establishments no.	Total Employees no.	Salaries and Wages \$,000	Cost of Fuel & Electricity \$,000	Cost at Plant of Materials Used \$,000	Value Added by Manufacturer \$,000	Value of Production \$,000
1946	60	22,055	37,813	3,821	62,136	93,451	159,408
1948	56	21,703	48,273	2,889	84,224	107,000	194,112
1950	61	21,812	54,263	3,349	101,773	134,062	239,185
1952	70	21,582	65,478	3,522	120,799	162,333	286,655
1954	73	20,894	67,476	4,000	106,502	149,074	264,185 *
1956	91	23,136	82,155	4,884	160,687	198,602	355,584
1957	88	22,178	83,190	4,962	144,247	176,456	326,091
1958	89	19,943	76,445	5,029	128,573	174,828	308,383
1959	89	21,093	86,859	5,420	160,397	188,179	347,680
1960	92	20,311	84,526	5,222	152,660	168,965	323,053

* 1954 and subsequent figures show value of factory shipments in place of value of production

Note: 1960 is the latest year for which these statistics are available. A rising trend in value of factory shipments commenced in 1961 and continued throughout 1962.



APPENDIX II

TABLE 2

VALUE OF FACTORY SHIPMENTS OF PRINCIPAL PRODUCTS
OF THE RUBBER INDUSTRY 1960

(Source: The Rubber Industries, 1960 -- Dominion Bureau
of Statistics)

\$,000

Tires & Tubes 157,004

Footwear 31,749

All Other Products 134,300

323,053

Principal Items Included in All Other Products

\$,000

Clothing, (Rubber, rubberized, plastic etc.) 1,846

Fabrics (rubberized, plastic-coated, etc.) 3,886

Rubber & composition heels, soles & soling

sheets 8,108

Belts & belting 11,780

Hose, pipe & tubing 10,865

Rubber packing, all kinds 1,409

Rubber washers, gaskets, etc 2,679

Rubber thread 1,289

Rubber & friction tape 1,761

Rubber covered rolls 1,257

Rubber coverings & linings for tanks, pipes,

etc. 1,968

Rubber floor mats, matting, etc 1,101

Rubber mats for automobiles 3,672

Camelback (tread rubber) 7,527



1	<u>Principal Items Included in All Other Products (continued)</u>	
2		<u>\$,000</u>
3	Tire & tube repair materials & kits, & tire	
4	flaps	1,709
5	Repair gums & fabrics & other unvulcanized gums	1,075
6	Cements & adhesives	2,548
7	Battery containers, covers, vents, etc.	3,079
8	Misc. rubber automotive & aeroplane parts	5,747
9	Druggists & medical sundries	1,761
10	Latex compounds (natural & synthetic)	2,969
11	Rubber balls, toys, toy balloons & novelties	1,336
12	Misc. extruded plastic products	1,126
13	Misc. moulded plastics	1,128
14	Misc. plastic products (bags, covers, film,	
15	tiles, toys, folding doors, etc.)	4,910
16	All other products (including reclaimed	
17	rubber, stationery goods, foamed	
18	latex, chemically blown rubber rug	
19	underlay, artificial leather, rubber	
20	floor tiles, etc.)	41,376
21	Amounts received for contract work	<u>2,984</u>
22		\$134,300
23		
24		
25		
26		
27		
28		
29		
30		



APPENDIX II

TABLE 3

EXPORTS OF RUBBER MANUFACTURES FROM CANADA*

(Source: Trade of Canada - Dominion Bureau of Statistics)

<u>YEAR</u>	<u>\$,000</u>
1946	22,187
1948	33,008
1950	11,763
1952	17,455
1954	10,863
1956	8,958
1957	8,798
1958	7,631
1959	11,234
1960	8,167
1961	7,295
1962	11,174

* Excludes latex and crude rubber and scrap rubber.



APPENDIX III

PERCENTAGE OF TAX REVENUE FROM

DIRECT AND INDIRECT TAXES

CENTRAL GOVERNMENTS - 1959.

<u>Percentage of Tax Revenues from</u>		
	<u>Direct Taxes</u>	<u>Indirect Taxes</u>
United States	85.5	14.5
<u>Canada</u>	59.0	41.0
United Kingdom	55.5	44.5
Netherlands	55.3	44.7
Sweden	55.3	44.7
Japan	52.1	47.9
Belgium	39.9	60.1
France	31.3	68.7
Italy	25.2	74.8
West Germany	21.1	78.9

Extracted from Canadian Tax Journal Volume 10, No. 2,
March - April, 1962 - Page 114.

Source: United Nations Statistical Yearbook, 1960

ROYAL COMMISSION ON TAXATION

HEARINGS

HELD AT
TORONTO
ONT.

VOLUME No.:

DATE:

19A

May 13, 1963

OFFICIAL REPORTERS
ANGUS, STONEHOUSE & CO., LTD.
BOARD OF TRADE BLDG.
11 ADELAIDE ST. W.
TORONTO

364-5865 364-7383

COLLEGE OF GENERAL PRACTICE OF CANADA
COLLEGE DE MÉDECINE GÉNÉRALE DU CANADA

150A ST. GEORGE STREET, TORONTO 5, ONTARIO
Walnut 1-4376

Submission To

ROYAL COMMISSION ON TAXATION

from

THE COLLEGE OF GENERAL
PRACTICE OF CANADA

SUMMARY

The College of General Practice of Canada does not believe that any person can continue the general practice of medicine and maintain the standards of care that the people of Canada have the right to expect without continual postgraduate study and systematic updating of his basic educational foundation through refresher courses. It has been carefully estimated that the body of medical knowledge is doubling every ten years.

At present, the costs of such refresher courses may not be deducted from taxable income.

RECOMMENDATIONS

The College recommends that costs of refresher courses that fit the taxing category of expenditure for the purpose of earning income be deductible from taxable income.

April 1963

Mr. Chairman and Members:

The Royal Commission on Taxation

1. The College of General Practice of Canada respectfully draws to the attention of the Chairman and the Commissioners a situation which:



(a) Works hardship on those Canadian family doctors most anxious to keep abreast of current medical developments and thus keep their skills up-to-date.

(b) Poses an anomalous position for that section of the medical profession which strives to establish that it is the doctor's duty to keep up-to-date rather than some mere optional privilege achieved for economic or other gain.

2. It is the present practice of the Department of National Revenue to disallow exemption from taxation to those general practitioners of medicine for their expenses incurred in attendance at planned refresher courses conducted by recognized medical teachers. And, the Department of Finance has heretofore declined to make such exemption allowable by statute.

3. The College of General Practice sincerely believes that Canada can no longer allow itself the luxury of penalizing physicians economically for their efforts to improve the health care standards of the people of Canada through the medium of keeping themselves up to date by taking scientific refresher courses.

4. Attendance at such courses is a condition of membership in the College of General Practice, and membership in the College, in turn, has become a condition of acceptance for appointment to medical staffs of a considerable number of large general hospitals in Canada. In the interest of better health care for the people of Canada, other hospitals are being encouraged to set these standards. Thus for a large number of Canadian doctors, attendance at



1 courses organized or supported by the College and others
2 is now, and will be more so in the future, a condition of
3 employment for the doctor.

4 5. Membership in the College of General Practice --
5 solely because of its continuing study requirements -- is
6 fast becoming the criterion whereby up-to-date, conscien-
7 tious general physicians are recognized -- both in the
8 profession and by the public. General practitioners - who
9 are members of the College - are Canada's only professional
10 people required to take annual postgraduate studies.

11 The College of General Practice of Canada:

12 6. In 1953 a committee on "Accreditation of General
13 Practitioners," appointed by the Canadian Medical Associa-
14 tion, recommended the "formation of a new organization
15 called the College of General Practice of Canada." Using
16 the same procedure as that used to establish the Royal
17 College of Physicians and Surgeons in 1929, the C.M.A.
18 appointed an organizing committee which on March 1, 1954,
19 established the College of General Practice of Canada. The
20 College began activity in June 1954. Within one year it
21 had 925 members and now has 2,375.

22 7. It was incorporated by Act of Parliament in 1960.

23 8. The aims and objectives of the College are as
24 follows:

- 25 1: To establish an academic body of General
- 26 Practitioners with broad educational aims.
- 27 2: To encourage development of undergraduate
- 28 curricula suitable for undergraduate teaching
- 29 leading to the general practice of medicine.
- 30 3: To promote residency training in General



1 Practice.

2 4: To promote the presentation of postgraduate
3 education for General Practitioners.

4 5: To promote research in General Practice.

5 6: To promote publication of original articles,
6 on medical subjects, by General Practitioners.

7 7: To promote the integration of General Prac-
8 titioners into general hospital staffs.

9 8: To provide suitable recognition to members
10 of the medical profession in the field of
11 General Practice.

12 9: To do all things necessary to furnish and
13 maintain the highest possible standard of
14 services by General Practitioners to the public.

15 9. To attain these ends, the College has established
16 two main types of membership. These are: (a) active - for
17 doctors who have been out of medical school for at least
18 five years; and (b) associate members - who can qualify
19 immediately on finishing medical school.

20 10. The core of the College's membership regulations
21 concerns continuing study -- the minimum requirement being
22 one hundred (100) hours in each two-year period.

23 11. To maintain active membership, the physician must
24 submit his study record every two years and these records
25 are assessed at both the Provincial and National level.
26 This regulation is enforced. The result is that College
27 membership has been withdrawn annually from about 75 doctors
28 because of non-compliance with study requirements.

29 Courses of Study for Practising Family Doctors:

30 12. When the College was established nine years ago it



1 soon became apparent that virtually all of Canada had
2 quite inadequate facilities for this continuing education.
3 The College accepted this challenge and immediately
4 interested itself in increasing these facilities.

5 13. There has been a marked expansion in all
6 Provinces of postgraduate study courses. These vary in
7 length from one day to several weeks.

8 14. As an indication of how well the people of Canada
9 are being served by the most conscientious of their family
10 doctors, attendance by practising general physicians at
11 these courses has more than doubled in all parts of Canada
12 during the past five years.

13 15. The College of General Practice does not think,
14 however, that a fully satisfactory rate of attendance has
15 been achieved. Major effort is being expended to increase
16 the number of physicians who will voluntarily take
17 refresher courses.

18 The General Practitioner and His Neighbourhood General
19 Hospital:

20 16. The College has made considerable progress with
21 its educational program. Universities and organized medi-
22 cine have accepted its role to do in a general way for
23 general practice what the Royal College of Physicians and
24 Surgeons has done for the specialties -- namely, to set up
25 and maintain higher standards.

26 17. A significant number of hospitals have accepted
27 the College's role. This is shown by the increasing number
28 of large general hospitals where membership in the College
29 of General Practice is necessary if the general physician
30 is to achieve appointment to the active staff of the



1 hospital.

2 18. Unquestionably, membership on the active staff of
3 some hospital is a vital requirement for virtually all
4 Canadian general practitioners. Without hospital facili-
5 ties few general physicians can practice at any "depth."

6 Conclusions:

7 19. The regulations of the College requiring
8 continuing study for membership are unique. They have been
9 an experiment founded on the belief that competence through
10 keeping abreast of modern medicine is the most valuable
11 attribute of the able family doctor.

12 20. The College does not believe that any person can
13 continue the general practice of medicine -- and maintain
14 the standards of care that the people of Canada have the
15 right to expect -- without continual postgraduate study
16 and systematic updating of his basic educational foundation.

17 21. More and more technological changes are occurring
18 in the practice of medicine. There is no indication that
19 the trend of discovery has changed and it can only be
20 expected that basic to the skills and knowledge required
21 for the earning of his living will be the requirement on
22 the physician to keep them up to date.

23 22. Particularly does the physician need systematic
24 refresher courses, and income tax deductions of his
25 expenses in attending these refresher courses would be a
26 powerful stimulus for more family doctors to attend them.
27 Conversely, the current tax on the expenses of taking such
28 courses cannot help but inhibit the keeping up-to-date that
29 is so important to the physician's patients.

30 23. The present income tax regulations allow expenses



1 for attendance at two conventions per year to be income
2 tax deductible. Attendance at the scientific sessions of
3 two conventions annually does not give sufficient study
4 credits for maintaining College membership -- nor do such
5 convention teaching sessions necessarily fit the specific
6 refresher needs of individual doctors.

7 24. The College does not suggest that the Commission
8 recommend tax exemption for the taking of degrees or courses
9 leading to a specialty and other postgraduate distinctions
10 that have been classified as development of a capital asset.
11 What the College is asking is for simple exemption of those
12 costs which the physician must expend for the purpose of
13 keeping up-to-date so that he may continue to practise
14 medicine effectively.

15 25. The College believes that courses ranging up to a
16 maximum of four to six weeks in length fit this category.

17 26. The College suggests that refresher courses fit
18 the taxing category of expenditure for the purpose of
19 earning income and it respectfully requests the Commission
20 to include in its recommendations the removal of this
21 anomaly in both practice and statute which directly places
22 hardship on the most conscientious doctors.

23 27. The College feels that improvement of this anomalous
24 position can be achieved simply. If, however, it was
25 the view of the Commission or the taxing authority that any
26 agency would be required to assist government in selecting
27 criteria for establishing which courses should be tax
28 exempt, then the College of General Practice of Canada
29 pledges itself to help in any way possible.

30 Respectfully submitted, J.T. McCullough, M.D. W.V. Johnston,
President M.D., Executive Director



ANGUS. STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

1 SUBMISSION

2 TO

3 THE ROYAL COMMISSION ON TAXATION

4 BY

5 PIED PIPER FILMS LTD.

6 33 ISABELLA STREET

7 TORONTO 5, CANADA

8
9 SUMMARY OF CONCLUSIONS

10
11 1. In negotiating international tax agreements in
12 the past Canada has taken the position of an exhibitor
13 of motion picture films as opposed to that of a producer.
14 As a result Canada's international tax agreements provide
15 for the withholding of income taxes from motion picture
16 royalties both by Canada and by other countries. These
17 provisions of Canada's international tax agreements
18 provide serious tax and financial difficulties for
19 Canada's new motion picture film industry, which must
20 obtain most of its revenue from the broad international
21 film market if it is to survive.

22 2. The foreign taxation of film royalties not
23 only creates hardship for the Canadian film producer but
24 also results in a very low yield from the Canadian taxation
25 of profits of film producers. While Canadian
26 revenue from the 10% non-resident tax on film royalties
27 would exceed any amount of income tax presently exigible
28 on the profits of domestic film producers this may not
29 be true in the long run. Increasing income tax revenue
30



1 from domestic producers however depends upon the growth
2 of a healthy film industry in Canada.

3 3. In order to foster the Canadian film industry
4 Canada should negotiate with other governments to
5 eliminate non-resident taxes on film royalties. This will
6 of course require that Canada also forego its right to
7 levy a non-resident tax on film royalties payable to non-
8 Canadian producers. This will result in an immediate
9 drop in revenue (which we believe will not be significant)
10 followed over a period of years by an increase in
11 corporation income tax.

12 4. The Canadian taxation system discriminates
13 between productions destined for exhibition on television
14 which are produced on video tape and those which are
15 produced on film. Video tape recordings are subject to
16 capital cost allowance at a rate of 100% whereas films
17 whether produced for television or for motion picture
18 theatres are subject to capital cost allowance at a rate
19 of only 60%. No distinction should be drawn between
20 films produced for television and video tape recordings
21 and films produced for television should be subject to
22 capital cost allowances at a rate of 100%.

23 24 INTRODUCTION

25
26 5. The purpose of this submission is to comment
27 upon the tax problems facing a Canadian film producer.
28 There are, of course, a number of serious economic
29 problems relating to production and financing which are
30 not a part of this submission. Financing problems are



1 touched on only as they are affected by the tax problems.
2 This submission is not concerned with corporation or
3 other taxes except as they specifically apply to the film
4 industry.

5 6. It is generally recognized that in order for
6 any large scale Canadian commercial film production to be
7 financially successful it is essential that international
8 distribution be obtained. This is true whether the
9 production is primarily designed for exhibition through
10 the medium of television or through motion picture
11 theatres. The Canadian market by itself is capable of
12 supporting very low cost productions for television but
13 the greater revenues available from the broad international
14 market are necessary to support larger television and
15 theatre productions.

16 7. Prior to World War II there was no Canadian
17 film industry. Since that time a few films have been
18 produced in Canada by private producers for both theatrical
19 and television exhibition but these have generally
20 been low quality productions which have not had a good
21 reception on the international market. Only in very
22 recent years has any serious attempt been made to produce
23 high quality films which would be acceptable to non-
24 Canadian exhibitors. Consequently, there is no history
25 of tax problems relating to the film industry and the
26 difficulties outlined in this submission are only now
27 becoming apparent.
28
29
30



CAPITAL COST ALLOWANCE

8. The end result of the production of a film is a length of film negative from which prints can be made for distribution to exhibitors. This negative remains as an asset of the film producer in most cases and the costs of producing it, including all the general production costs such as salaries and wages, equipment rentals, scripts, sets, fees, etc., are capitalized as part of the cost of the negative. In addition, the title to any prints made from the negative rests with the producer and the costs of making such prints are also capitalized. These costs are charged for tax purposes against revenues flowing from the rental of the film to exhibitors in the form of depreciation. The rate of depreciation permissible for Canadian tax purposes in respect of films is 60% of the total cost on the diminishing balance method. Thus, for tax purposes the maximum amount of production costs that could be charged against revenue is as follows:

Year	Percentage of total production costs charged against revenue
1	60.0%
2	24.0
3	9.6
4	3.8
5	<u>1.6</u>
	<u>99.0%</u>



1 9. The use of the 60% rate may give rise to
2 difficulties in connection with the repayment of funds
3 borrowed to finance production costs. In almost every
4 case, the film producer requires substantial outside
5 financing in order to complete the production. When this
6 is done it is usual for the creditors to take an assign-
7 ment of all the net revenues from the exhibition of the
8 film, together with a chattel mortgage on the film itself.
9 Most film producers count on receiving sufficient royalties
10 during the first year of production to repay production
11 costs or at least retire borrowings. If 100% of the first
12 year's revenue must be applied to discharge borrowings,
13 and if only 60% of costs are allowable as deductions for
14 tax purposes, a significant imbalance of revenue and
15 expenditure results. In addition if the film does not
16 have a long life there may be a substantial part of the
17 costs which remains to be amortized at a time when there
18 is no revenue from the film.

19 10. As contrasted with the 60% rate applicable to
20 films, the Canadian government has set the rate of
21 depreciation for video tape at 100% based perhaps on the
22 theory that television productions are more short-lived
23 than productions destined for exhibition in motion picture
24 theatres. Thus, all the production costs for video tape
25 recordings may be charged to expense for tax purposes in
26 the year in which they are incurred and no part need be
27 deferred to be deducted against revenues of subsequent
28 years. If the government were in fact influenced in
29 establishing the 100% rate for video tape by the shorter
30 life of television productions, it has evidently ignored



1 the fact in setting the rate for film that a large number
2 of television productions are produced on film, particu-
3 larly where international distribution is contemplated.
4 The differentiation in rates between the film destined
5 for television exhibition and video tape does not seem
6 realistic and places a hardship on the producer who for
7 a variety of reasons may be obliged to use film.

8 11. We are not fully conversant with the deprecia-
9 tion policies of other countries with respect to film and
10 video tape productions. We understand, however, that in
11 the United States the producer is required to estimate
12 his revenues for the year of production and succeeding
13 years at the time the work is released and the costs are
14 amortized pro rata against anticipated revenues. There
15 is, of course, a natural tendency on the part of U.S.
16 film producers to anticipate that the bulk of the revenue
17 will be received in the first year and to give conserva-
18 tive estimates of later years' revenues. We understand
19 that as a result, U.S. producers would usually claim
20 depreciation in the first year at a rate higher than the
21 60% permitted by the Canadian authorities. We understand
22 that adjustments are made by the U.S. Internal Revenue
23 authorities to the amortization rates where the actual
24 revenues vary markedly from the projected revenues. Such
25 adjustments, however, do not usually give rise to serious
26 tax problems for the U.S. producer.

FOREIGN TAXATION OF FILM ROYALTIES

29 12. It is in the area of foreign taxation of film
30 royalties that the Canadian producer faces his most



1 serious problems. Canada has tax agreements with a number
2 of other countries, but in almost all cases the tax
3 agreements provide that the other country may levy taxes
4 on royalties payable to Canadian film producers with the
5 ^{of tax} rate/generally limited to 15% of the gross royalties.
6 Thus, in the case of royalties coming from most foreign
7 countries, the Canadian producer would receive only 85%
8 of the royalty payable by the foreign exhibitor. There
9 is a significant exception in the case of royalties flow-
10 ing from the United Kingdom where tax is withheld at the
11 standard income tax rate of 38-3/4% unless the contract
12 with the exhibitor can be arranged in such a way that no
13 tax is exigible under U.K. law.

14 13. Foreign withholding taxes may have serious
15 consequences for the Canadian film producer as follows:

16 (1) Under Canadian income tax law, foreign with-
17 holding taxes may be deducted from Canadian tax
18 otherwise payable to the extent of the Canadian
19 tax applicable to the net income derived from
20 the foreign source. The foreign withholding
21 tax is applied to the gross royalty. Canadian
22 tax, however, is calculated on the net income
23 from the foreign source (after deducting
24 distribution fees and costs, depreciation and
25 current operating expenses). As a consequence,
26 the foreign withholding tax frequently exceeds
27 the Canadian tax in respect of the foreign
28 income and in some cases exceeds, in fact, the
29 net income. Since Canadian law does not permit
30 any carry-over of foreign tax credits, no



deduction would ever be available in respect of foreign taxes which are in excess of the Canadian tax on the foreign source income.

(2) Foreign withholding taxes significantly reduce the funds available from exhibition of the film outside of Canada. This reduction in funds available to repay debt incurred in the production of the film places a serious hardship on the Canadian film producer.

14. The U.S. film producer is in a favoured tax position in comparison with the Canadian producer. Almost all of the U.S. tax treaties provide for a complete exemption of film royalties from either U.S. or foreign withholding tax. Exceptions to this general rule are the treaties with Austria, Japan and Canada. The Canada-U.S. Tax Treaty restricts Canadian withholding taxes to 15% of gross royalties but Canada has voluntarily reduced this rate under its own Income Tax Act to only 10%. On the other hand, the U.S. government has not reciprocated in this concession and in the case of royalties payable on Canadian films, withholds 15% from such royalties. In addition to the advantages of receiving royalties without being subject to foreign withholding taxes, the U.S. producer has an advantage in that he is permitted to carry over a foreign tax credit from one year to the next or may deduct the foreign tax as an expense in the year it is incurred.

15. The U.S. market is essential for the Canadian film producer who wants to produce for export. The incidence of U.S. withholding taxes is such as to weigh



1 heavily against the exploitation of the U.S. market by the
2 Canadian producer. If, however, the Canadian film
3 producer is deemed by the U.S. Internal Revenue Authorities
4 to be carrying on business in the United States, he may
5 avoid U.S. withholding taxes on royalties from U.S.
6 sources. While he will be subject to U.S. corporation
7 taxes on his U.S. profit, this tax will be substantially
8 less onerous than the weight of the 15% withholding tax.
9 It may also be possible for the Canadian producer to
10 obtain the advantages of U.S. foreign tax treaties in
11 order to avoid foreign withholding taxes as well as U.S.
12 withholding taxes. It should be noted however, that the
13 maintenance of a U.S. permanent establishment may give
14 rise to unnecessary administration costs and inconvenience
15 and in many cases the sole purpose of maintaining such an
16 establishment would be the avoidance of U.S. and other
17 foreign taxes. We think that such a situation is undesirable.
18 able.

ILLUSTRATION

16. In order to illustrate the tax problems facing
a Canadian producer of films we have compared the net
profits or loss of a Canadian and a U.S. film producer
from a typical television series and the financial position
of each producer at the end of the life of the series.
These comparisons are set out in Appendix A.

17. We believe that the figures used in the illustration are representative of a successful television series. It shows that the Canadian producer has a net loss on the production of approximately \$145,000 compared



1 with a profit realized by the U.S. producer of approx-
2 imately \$243,000. In addition the Canadian producer has
3 a cash deficiency of approximately \$205,000 whereas the
4 U.S. producer's profit is all represented by a cash
5 surplus.

6 18. From the illustration it is clear that the
7 Canadian producer cannot hope to be successful unless some
8 way is found to circumvent the impact of foreign taxes.
9 While the capital cost allowance deductible by the Canadian
10 producer is less than the amortization allowed to the U.S.
11 producer this would not have any significant effect on
12 the Canadian producer's tax position unless the heavy
13 burden of foreign taxes were overcome. However, even if
14 the burden of foreign taxes could be alleviated, the
15 Canadian producer would still face serious problems
16 unless a more favourable rate of capital cost allowance
17 were obtained.

18
19 CONCLUSION

20 19. If Canada is to develop a healthy film industry
21 it is essential that some method be found to overcome
22 the taxation difficulties. It is possible during the
23 short term for the Canadian producer to avoid foreign
24 withholding taxes by so arranging his affairs that he is
25 taxable in the United States on his profits only and by
26 making special arrangements to obtain the protection of
27 U.S. tax treaties. In the long run however, this
28 situation cannot be regarded as desirable by either the
29 Canadian or the U.S. tax authorities. We believe that
30 the difficulties can be overcome by renegotiating



1 Canada's international tax agreements to provide for
2 exemption of film royalties both by Canada and by other
3 countries. We are unable to estimate the loss of revenue
4 to Canada from such a change but we do not believe that it
5 would be significant.

6 20. The production of films for exhibition on
7 television is an important but distinct part of the film
8 industry. It is clear that a capital cost allowance rate
9 of 60% is not adequate for films produced for television.
10 There does not appear to be any reason for differentiating
11 between films produced for television and video tape and
12 the 100% capital cost allowance rate applicable to video
13 tape would appear to be more appropriate than the present
14 rate of 60% applicable to motion picture films.



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12

1 COMPARISON OF FINANCIAL POSITION OF A CANADIAN AND A U.S.
2 PRODUCER OF A TYPICAL FILMED TELEVISION SERIES AT THE END
3 OF THE LIFE OF THE SERIES

	Canadian	U.S.
	<u>producer</u>	<u>producer</u>
4		
5		
6	Net profit (loss on series)	\$ (144,800) \$ 243,300
7	Amortization of production	
8	costs charged against profits	<u>2,280,100</u> <u>2,340,000</u>
9	Cash flowing from series avail-	
10	able to repay debt	\$2,135,300 \$2,583,300
11	Debt	<u>2,140,000</u> <u>2,140,000</u>
12	Excess (deficiency) of cash	
13	available to producer to re-	
14	pay investment of \$200,000	
15	and for distribution as pro-	
16	fit	\$ <u>(4,700)</u> \$ <u>443,300</u>
17	Foreign taxes paid	\$ 763,700 \$ 134,500
18	Domestic taxes paid	<u>800</u> <u>217,500</u>
19	Total taxes paid	\$ <u>764,500</u> \$ <u>352,000</u>
20	Undepreciated production costs	
21	available for deduction	
22	against future income	\$ <u>59,900</u> \$ <u>-</u>



ASSUMPTIONS

In making the comparison of the net profit of a Canadian and a U.S. producer from a typical filmed television series, the following assumptions have been made:

1. A series of thirty-nine half hour television shows is produced at a cost of \$60,000 per half hour show, the total cost being \$2,340,000. The series would be produced for showing during prime evening time. The cost of production in the United States and in Canada would not vary materially.
2. It is assumed that the producer invests \$200,000 in the series and the balance of production costs of \$2,140,000 is borrowed at 6% interest. Interest has been estimated at \$60,000 for Year 1 on the assumption that funds would be borrowed only as needed and the total borrowings of \$2,140,000 would be outstanding for less than one-half year on average. For the second and subsequent years, interest has been calculated on the total borrowings less amounts assumed to have been repaid out of cash generated in previous years. Credit has also been taken for cash available from the current year's operations. Such cash is assumed to be available for half of the year.
3. The series would be sold as follows:



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14

		Distribution	Net royalties
		fees	received
	<u>royalties</u>	<u>and costs</u>	<u>by producer</u>
1			
2			
3			
4	<u>Year 1</u>		
5	(network)		
6	U.S.A.	\$ 280,000	\$1,600,000
7	Canada	245,000	200,000
8	U.K.	245,000	200,000
9	Other	295,000	240,000
10		<u>\$1,065,000</u>	<u>\$2,240,000</u>
11	<u>Year 2</u>		
12	(syndication)		
13	U.S.A.	\$ 130,000	\$ 160,000
14	Other	220,000	180,000
15		<u>\$ 350,000</u>	<u>\$ 340,000</u>
16	<u>Year 3</u>		
17	(syndication)		
18	U.S.A.	\$ 98,000	\$ 120,000
19	Other	220,000	180,000
20		<u>\$ 318,000</u>	<u>\$ 300,000</u>
21	<u>Year 4</u>		
22	(syndication)		
23	U.S.A.	\$ 98,000	\$ 120,000
24	Total	<u>\$1,831,000</u>	<u>\$3,000,000</u>

26 4. We have assumed that no regional network sales
27 would be made and that in the first year the series would
28 be exhibited on a U.S. national network. In the succeed-
29 ing three years the series would also be sold in the U.S.
30 on a syndication basis. (i.e. sales to individual stations)



1 In addition sales would be made in Canada, the United
2 Kingdom and in a number of other foreign countries includ-
3 ing Australia and Japan. After a four-year period there
4 would be no further revenue from the series.

5 Distributors' fees have been calculated on the following
6 standard rates:

7 U. S. Network 10% of gross royalties

8 U.S. syndication 40% of gross royalties

9 Canada, U.K. and other

10 foreign countries 50% of gross royalties

11 Distribution costs (charged by the distributor to the
12 producer) have been estimated at approximately 5% of gross
13 royalties in all cases. Distribution costs include
14 laboratory costs, costs of additional prints, shipping
15 and customs charges, advertising and publicity, etc.

16 5. Capital cost allowance has been charged at the
17 maximum rate of 60% for the Canadian producer. At the
18 end of the four-year period the undepreciated capital
19 cost amounts to \$59,900.

20 Amortization of production costs for U.S. tax purposes
21 has been taken on the basis of actual net royalties. The
22 film is fully amortized at the end of Year 4. In actual
23 practice the amortization in the first year would probably
24 be greater than that taken for purposes of this illustra-
25 tion.

26 6. The Canadian taxes have been calculated without
27 any provision for provincial taxes or the provincial tax
28 credit. Credit for foreign taxes has been calculated as
29 provided in section 41 of the Income Tax Act.

30 U.S. taxes have been calculated without any provision for



1 state or local taxes. Foreign taxes have been claimed
2 as a deduction since this produces a lower tax than
3 claiming the foreign tax credit.

4 7. Foreign withholding taxes have been calculated
5 in accordance with prevailing rates as follows:

	<u>Canadian producer</u>	<u>U.S. producer</u>
6 U.S.	15%	-
7 Canada	-	10%
8 U.K.	38-3/4%	-
9 Australia	15%	15%
10 Japan	15%	15%
11 Other foreign countries	15%	-
12		

13
14 We have assumed that a sale would be made in Japan in the
15 first year in the amount of \$400,000 and that a sale would
16 be made in Australia during the second year in the amount
17 of \$200,000.

18 8. No provision has been made for any operating
19 expenses other than interest.

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March 30, 1963

THE ROYAL COMMISSION ON TAXATION

MOORE CORPORATION, LIMITED

SUBMISSION RELATING
TO THE
5% WITHHOLDING TAX ON DIVIDENDS

1. Effective December 20, 1960 the Canadian Government levied a 15% tax on dividends paid to non-resident corporations by Canadian subsidiary corporations and thereby terminated the arrangement under Article XI of the Canada-U.S. Reciprocal Tax Convention. The latter provided that the tax on such dividends and on dividends received by Canadian corporations from United States subsidiaries was limited to 5%. Since December 20, 1960 dividends received by Canadian corporations from United States subsidiaries have been subject to a 15% withholding tax.

2. Moore Corporation, Limited derives a large proportion of its dividend income from its subsidiaries in the United States and consequently is directly affected by this change in the withholding tax rate. During 1962, a normal year, such dividends involved a net cash transfer of \$6,298,500 from Moore Business Forms, Inc., a wholly-owned United States subsidiary to Moore Corporation, Limited, the parent Canadian company. It is apparent that the increase in withholding tax rates is most undesirable, not only because it penalizes our company severely, but because it depresses the Canadian economy as a whole.

3. Our United States subsidiaries pay the full United States tax on their profits and, as you know, the maximum United States federal income tax rate thereon at the present time is 52%. This is a very high rate of tax



1 and the further excessively high withholding tax on divi-
2 dends brought back to Canada seriously reduces the return
3 on our investment. Furthermore, we look to these dividends
4 as a source of funds for further expansion in Canada and
5 abroad and the 15% United States withholding tax severely
6 curtails the amount of funds available for these purposes.

7 4. We feel that the development of Canadian business
8 abroad should be strengthened to provide an ever-increasing
9 source of revenue to Canadian shareholders in the form of
10 dividends. Rather than discourage such activities by high
11 rates of withholding tax, it would be preferable to provide
12 some incentive to Canadian firms to develop such business.
13 In this connection a lower rate of withholding tax for
14 dividends would in turn reduce the tax burden on risk
15 capital available for such activities.

16 5. It is recognized that a reduction of the United
17 States withholding tax rate could only be obtained by
18 reciprocal arrangements with that country and this would
19 involve a reduction in the Canadian rate of withholding tax
20 on dividends paid by Canadian subsidiaries to parent com-
21 panies in the United States. It may appear that such a
22 reduction would give rise to a substantial loss of revenue
23 to the Canadian Government, but this is not necessarily
24 true. Experience has shown that, where the cost of trans-
25 ferring dividends either from or to Canada becomes unduly
26 high, companies are forced to take relief measures to
27 curtail the total tax impost and so obtain a fair return
28 on their investments.

29 6. Furthermore, the increased withholding tax on
30 dividends generated in Canada will act as a deterrent to



1 further investment in Canada. Such a decrease in capital
2 expenditures will result in fewer employment opportunities
3 and a greater pressure on foreign exchange reserves.

4 7. We feel strongly that a lower rate of withholding
5 tax on dividends between the United States and Canada would
6 be of substantial benefit in facilitating the movement of
7 capital between the two countries and thereby increasing
8 trade and employment. It would also contribute to a
9 better understanding and improvement in relations between
10 the two nations. In the long run, uneconomic roadblocks
11 to investment and trade simply hinder the vigorous growth
12 of both Canada and the United States.

13 8. We would appreciate your assistance in reducing
14 the withholding tax on dividends between Canada and the
15 United States at least to the rate of 5% previously
16 enforced.

